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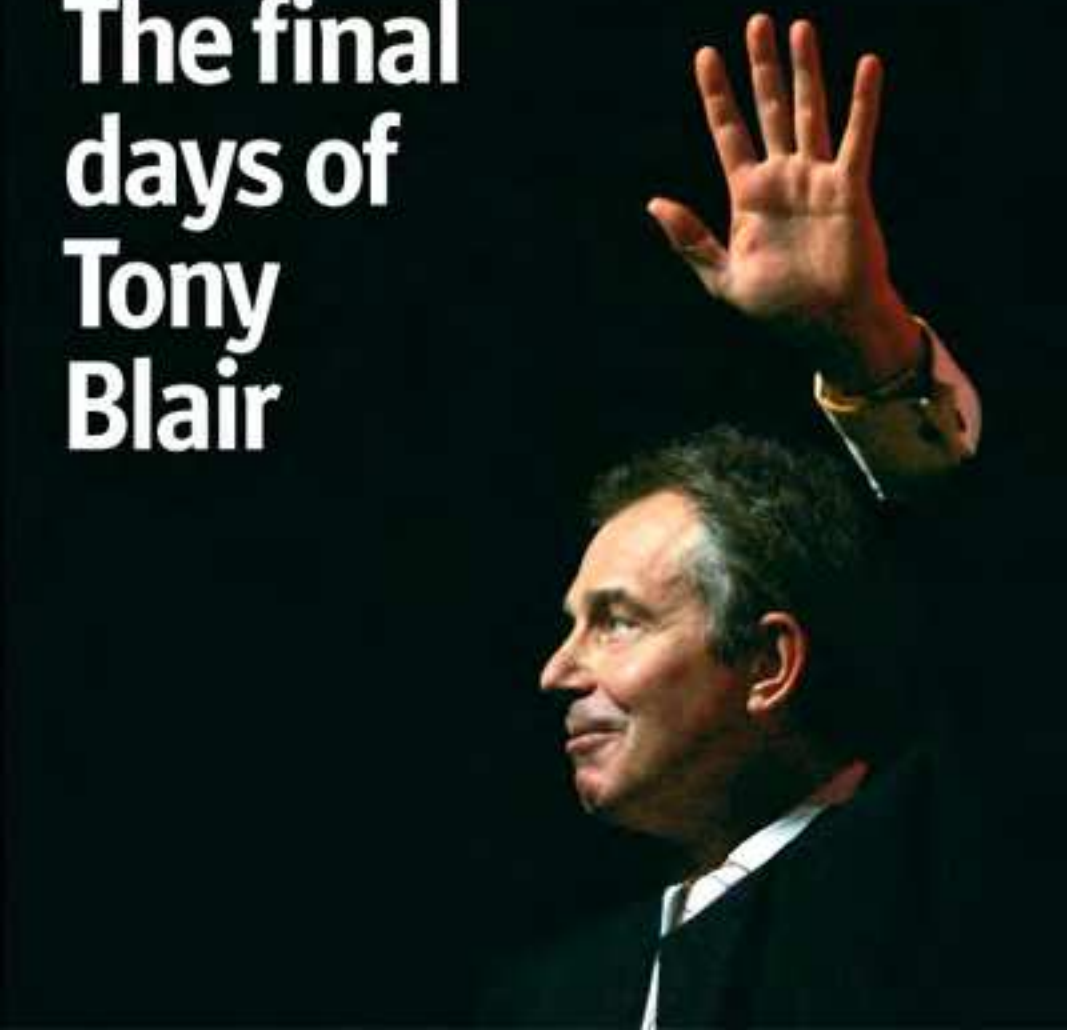
The final days of Tony Blair



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Print Edition March 18th 2006

On the cover
Tony Blair has been Britain's prime minister for nine years, but is finding increasing difficulty in persuading his party to support him: leader

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Politics this week

Mar 16th 2006
From The Economist print edition

Slobodan Milosevic, the ex-president of both Yugoslavia and Serbia who unleashed four wars in the Balkans in the 1990s, was found dead in his cell at The Hague war-crimes tribunal. Mr Milosevic died shortly before the finish of his four-year trial on charges of crimes against humanity. See article

Eight foreign election monitors were expelled from **Belarus** ahead of the presidential vote on March 19th. The election campaign, which is expected to see Alyaksandr Lukashenka retain the presidency, has seen many cases of intimidation and the beating-up of opposition figures. See article

France was convulsed by student protests against a new labour contract that will weaken job protection for young employees. The Sorbonne and many other universities were occupied and there were violent clashes with riot police. The government, led by Dominique de Villepin, the prime minister, insisted it would stick to its plans to bring in the contract. See article

Getty Images

The first of two television debates in the **Italian election** campaign was adjudged a win for the centre-left opposition leader, Romano Prodi. A few days earlier, the centre-right prime minister, Silvio Berlusconi, walked out of an interview after hostile questioning. See article

Depressingly familiar

In **Iraq**, police recovered the bodies from two mass killings, taking the number of corpses discovered this week as a result of execution-style murders to at least 87. The dead were probably victims of an escalating cycle of sectarian violence between Shia and Sunni extremists. Meanwhile, Iraq's parliament held its inaugural session. See article

Israeli troops stormed a Palestinian jail in the town of **Jericho** in the West Bank, capturing a senior militant leader and dozens of other Palestinians. The Israelis moved in after American and British monitors left the prison, complaining of poor security arrangements. Palestinian militants burnt down the British Council building in Gaza in revenge. See article

Five high-ranking **Kenyans**, including former heads of intelligence and the central bank, were charged with fraud over the 1990s Goldenberg scam. Although cheered by the news, anti-corruption campaigners pointed out that charges have yet to be brought against former members of the present government who resigned recently over corruption allegations.

In South Africa the opposition Democratic Alliance candidate was elected mayor of **Cape Town**. Former journalist Helen Zille (who is white) becomes the only mayor of a major city not from the African National Congress party.

The government of **Chad** claimed that it had foiled a coup attempt that involved shooting down President Idriss Déby's plane. Several former army officers recently defected to join rebels in the east of the country operating out of neighbouring Sudan.

Prelude to the main event

In a legislative election in **Colombia**, supporters of the president, Álvaro Uribe, won a majority in both houses of Congress. That pointed to an easy victory for Mr Uribe in a presidential election in May at which he will seek a second term. His chief opponent will be Horacio Serpa, a Liberal whom he defeated in 2002 and who won a party primary held in parallel with the legislative vote. See article

Canada's new Conservative prime minister, Stephen Harper, made a two-day visit to his country's troops in Afghanistan. He rejected calls for a parliamentary debate on their deployment, which was ordered by the previous Liberal government.

AP

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Brazil's main opposition party named Geraldo Alckmin, the governor of São Paulo state, as its presidential candidate in October's election. He will face a tough fight against the incumbent president, Luiz Inácio Lula da Silva.

The presidents of **Argentina** and **Uruguay** issued a joint statement in an effort to dampen a dispute over the building of two cellulose plants on the Uruguayan bank of their riverine border. Uruguay said it would recommend a 90-day halt to construction and a new environmental study, provided Argentine demonstrators stopped blockading a border bridge. But it was not clear if this deal would stick. See article

Bush's shelter from a storm

Congressmen expressed satisfaction about the details of DP World's plan to find an American buyer for its newly acquired holdings in several **American ports**. The Dubai-based company's decision defused a political row between Congress, which made it clear that it would not allow an Arab firm to run the ports, and George Bush, who maintained there was no security threat.

Democratic leaders backed away from a move by Russ Feingold, a senator from Wisconsin, to **censure** Mr Bush for a controversial domestic eavesdropping programme. Republicans have vowed to use the issue to their advantage in the mid-term elections; polls show strong public support for the surveillance of suspected terrorists. See article

The UN General Assembly voted to set up a new 47-member **Human Rights Council** to replace the discredited Commission on Human Rights. The United States, along with three other countries, voted against the proposals arguing that they still would not prevent the worst violators becoming members. But it agreed to work with others to make the new body effective.

Bangkok days

Getty Images

Protesters in Bangkok continued to demonstrate for the resignation of **Thailand's** prime minister, Thaksin Shinawatra, over corruption allegations. Meanwhile, the head of the country's electoral commission said the general election, called by Mr Thaksin for April 2nd, may have to be postponed. The opposition's boycott of the ballot is making it difficult to fulfil a requirement that a full parliament choose a prime minister.

Human Rights Watch reported that representatives of **Sri Lanka's** Tamil Tiger rebels were extorting money from the Sri Lankan diaspora, mainly in Britain and Canada, to fund a “final war”. The allegation comes amid an upsurge in violence that has claimed over 120 lives in the country.

The UN envoy to **Afghanistan** warned that the Taliban still posed a threat to the country's security. Insurgents in the country have stepped up their campaign recently with a wave of suicide bombings and kidnappings of foreigners.

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Business this week

Mar 16th 2006
From The Economist print edition

Some of the biggest investors in the **London Stock Exchange** expressed an interest in talking to **NASDAQ** about its £2.4 billion ($4.2 billion) informal offer to take over the institution. **NASDAQ**'s move, which the LSE's board rejected, set off more speculation about possible mergers among European stockmarkets. **Deutsche Börse** and **Euronext** (which both expressed interest in the LSE last year) restated that they were keen on "concrete" negotiations with each other. See article

Capital One Financial, a credit-card issuer, agreed to buy **North Fork**, a bank operating in the New York area, for $14.6 billion. It is the second big acquisition by Capital One in less than a year (it bought Hibernia for $5 billion in November, despite concern about the effects of Hurricane Katrina on the New Orleans-based bank's business). With deposits of around $78 billion it will now become one of the ten biggest banks in America. See article

Consolidation in Europe's banking sector continued apace as **MillenniumBCP**, Portugal's largest private bank, made a €4.3 billion ($5.1 billion) offer to buy **BancoBPI**, a smaller rival. The combination, if successful, would overtake state-controlled Caixa Geral de Depósitos to become Portugal's biggest bank.

Goldman Sachs kicked off what is expected to be another set of stellar quarterly results from Wall Street firms by reporting a 64% increase in net profit for the three months ending February 24th, compared with a year earlier. At $2.48 billion, it was also Wall Street's biggest-ever quarterly profit, and more than Goldman Sachs earned throughout the entire year of 2002.

Munich Re, the world's biggest reinsurer, said its net profit for 2005 had increased by 45%. The solid performance was achieved by selling some assets to offset claims from last year's devastating hurricane season, which cost Munich Re €2.3 billion ($2.9 billion).

Drugs war?

Schering, a German pharmaceutical company, said it would reject a takeover bid by **Merck**, its larger compatriot, claiming the price, which Schering valued at €14.6 billion ($17.5 billion), was too low. Schering's share price rose by 25% after revealing it had been approached, as investors weighed up the options for a bidding war. Both firms are separate from their American namesakes. See article

Knight Ridder, America's second-biggest newspaper publisher, agreed to be bought by **McClatchy**, a smaller rival, for $4.5 billion. McClatchy, which includes the *Sacramento Bee* among its titles, immediately put the *Philadelphia Inquirer* and 11 other Knight Ridder papers (out of 32 daily publications) up for sale.

Sir Christopher Gent became the highest-profile departure yet at **Vodafone.** The mobile-phone company's former boss, who turned the firm into the world's biggest mobile operator through the acquisition of Mannesmann, said he was stepping down as honorary life president because of speculation (which he denied) that he was attempting to "obstruct" its management. Vodafone's chairman issued a statement of support for the chief executive, Arun Sarin, who is under pressure from shareholders.

Game off

Sony confirmed that it was delaying the release of its **PlayStation 3** games console until the autumn (it had been due to be on the shelves by the end of May). The electronics firm blamed the setback on technical hitches in the console's disk drive, which uses Sony's much-vaunted Blu-ray technology. See article

The new owners of **Europcar**, a car-hire company that was spun off by **Volkswagen** last week, said they were seeking a partner in the United States for the business. The German carmaker sold Europcar to **Eurazeo**, a French investment firm, for €3.3 billion ($4 billion), including debt, in an effort to raise money for its restructuring plans.

Exxon Mobil signed a $2.6 billion agreement with **Pertamina**, Indonesia's state oil company, to develop the Cepu oilfield in Java. The deal comes after five years of negotiations (and after Indonesia's government removed Pertamina's president, who was opposed to the deal) and provides the country with much-needed investment in its oil industry: an OPEC member, it recently became a net oil importer. Peak production at Cepu should reach 165,000 barrels per day. See article

Swimming in debt

America's **current-account deficit** widened by more than 20% in 2005 to stand at $805 billion, or 6.4% of GDP. Worried economists reiterated that this was unsustainable, and raised concerns that the economy would become more vulnerable to the decisions of the foreigners who finance America's external borrowing. See article

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British politics

The final days of Tony Blair

Mar 16th 2006
From The Economist print edition

If Britain's prime minister is not thinking about stepping down, he should be

Reuters

ONCE upon a time Britain had a long-serving Labour prime minister, one who had won four general elections. He showed no signs of quitting. But suddenly, on March 16th 1976, Harold Wilson surprised everyone by announcing his resignation. Thirty years later, today's even longer-serving Labour prime minister, Tony Blair, also shows no sign of quitting, even though on the eve of the Wilson-resignation anniversary he was forced to rely on the votes of the Conservative opposition in order to get his education reforms through the House of Commons. Unlike Wilson, Mr Blair remains young and in good health. But he too may be thinking of springing a surprise. He certainly should be pondering it.

For a battler like Mr Blair, who has a strong and often admirable conviction that he is right and his opponents wrong, it will always be hard to stand down. That may be especially true just when he has won a parliamentary vote, on school reforms that, even in their watered-down form, he holds dear. His reluctance will be reinforced by his own doubts about whether his all-but-inevitable successor, Gordon Brown, will really carry on his reforms in health and education, and by his natural resentment at Mr Brown's often disruptive and petulant behaviour during their nine years in office together. And there is Iraq, the invasion of which has its third anniversary on March 19th: Mr Blair's decision to take part in that venture is the single biggest reason why he is loathed by many Labour MPs but also the main reason why he is so admired across the Atlantic. Little by little, British troops are being withdrawn from the relatively peaceful areas of southern Iraq in which they have been based. No doubt Mr Blair would prefer to stay on until he can say that the British job has been done and the withdrawal has been a success.

The case for staying

No one likes to leave a powerful and important job. And the after-life for a prime minister is a particularly empty one, professionally speaking. For professional speaking is one of the few things he can do. Any private job, except perhaps in a charity, is likely to be a come-down or else highly controversial. Any job in international organisations grand enough for him to consider will almost certainly be unavailable, for other countries would not want such a leading, sometimes bruising Briton as secretary-general of the United Nations or president of the European Commission. Yet that will be true whether he stands down this summer or (as the political consensus has it) in 2007 or, as would fit with his public promise before last year's general election, in 2008-09. The case for staying longer has to rest on what he could hope to achieve by doing so and what effect his further tenure could have on his reputation.

Iraq offers no argument for delay. Whether that country descends into civil war or struggles to its democratic feet is not something over which Mr Blair will have any real influence. The course for a gradual British withdrawal, as security in southern Iraq is handed over to Iraqi soldiers and police, is already set. There is no reason to believe that Mr Brown would change it. Like it or not, Iraq's effect on Mr Blair's reputation is already beyond his reach.

There is, though, a case in domestic policy and politics. Mr Blair's main achievement has been to consolidate the pro-market reforms begun by Margaret Thatcher and, after a wasted first term, to extend them into health and education. He has achieved nothing radical in either field. But by forcing through in 2004 the introduction of tuition fees for universities he opened the possibility for future governments to extend that financial freedom and give universities a chance to compete with their far-better-funded American rivals. The schools reform that was passed this week was timid, but useful: it will grant more freedom and flexibility to schools, and introduce more competition for pupils and funding (see article). In the National Health Service, too, he has introduced new market and financial disciplines as well as encouraging private firms to add to the NHS's capacity.

There is more to be done. It will be vital, as financial pressures begin to bite on hospitals, that the health secretary

and the prime minister do not shy away from tough decisions about which should close and which should merge. A new chief executive for the NHS needs to be recruited to enforce that process, and new laws are needed to establish an independent health regulator to police the competition that is due to start in 2008. Energy policy too needs tough decisions if it is to be made coherent, both in response to high prices and to climate change, especially if nuclear power is to be revived. The public-pension system needs an overhaul, but that, being costly, is politically unpopular. And there will be controversies over the replacement or extension of the Trident nuclear weapons (see article) and over reforms to incapacity benefit. These are just the sort of things a determined, battling prime minister might want to take on, perhaps especially one who no longer has to worry about the next general election—because he has pledged not to fight it.

The case for quitting

But does he really want to take them on? And does he stand a good chance of success? Those are the questions he needs to ask himself now. The fact that he had to rely on Tory votes to pass his schools bill over the heads of 52 Labour rebels ought not to worry him as much as it might his party: that there is a centrist consensus over many policies is flattering, not worrying. After the next general election, coalition politics could well be the name of Britain's game.

What Mr Blair cannot afford to do is to rest on his laurels. That would be a poor option given that his eager successor is sitting impatiently next door. Mr Brown is not now stirring up Labour MPs' rebelliousness but he might if he sees Mr Blair merely marking time or—worse—damaging Mr Brown's own future chances of electoral success.

From the nation's point of view, a Tony Blair able and willing to push through the necessary reforms might well be a good option. But the case for preferring him to quit sooner rather than later is one based on the gradual erosion of that ability as time passes and the power of patronage disappears. The entire country already knows that Mr Brown will in due course become prime minister. Even more important, all actual and potential ministers do too. No one knows what he will be like in that job, despite his quite successful tenure as chancellor of the exchequer. Next week Mr Brown will present his tenth budget but it will offer no clues as to what he would do on health or education or energy or even pensions. The only way to find that out is to have him move next door, to 10 Downing Street—and with sufficient time to evaluate him before he feels it legitimate to call an early general election.

Mr Blair still benefits from a high international reputation, despite Iraq and despite squabbles within the European Union. He has set domestic policy, especially on health and education, on a better course. But only if he feels absolutely sure that he is capable of driving his health and other reforms through during the next two years should he stay longer. To do that, after nine wearying years in office, would be quite a task. Better, surely, for him to quit while he is still ahead.

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The lessons of Milosevic

Coddling monsters has a price

Mar 16th 2006
From The Economist print edition

Too many people, for too long, said "better the devil we know"

EPA

Get article background

GIVEN that he was such a dark, malign personality, why did so many people, in Serbia and further afield, tolerate him for so many years? That is one question historians will ask about Slobodan Milosevic, the former president of Serbia who died in his prison cell in The Hague on March 11th (see article).

It's not all that hard to see how he took power in the first place. Post-communist chaos, the collapse of old Yugoslavia, Serb grievances: all this was a gift to a demagogue. But why, as he started wreaking havoc across the Balkans, were people slow to see his ghastliness?

Even if Serbian voters were ignorant of, or indifferent to, the mayhem going on in Croatia and Bosnia, didn't they realise the Milosevic regime was stealing vast amounts of their money? In a country like Serbia with a talented, cosmopolitan middle class, how did Mr Milosevic's sleazy kleptocracy keep a power base for so long? Part of the answer, of course, is that no nation, however "civilised", is immune to fascism.

But quite apart from the Serbs, there were plenty of other people who seemed to prefer Mr Milosevic to any conceivable alternative. One was the Croatian president, Franjo Tudjman: once they had stopped fighting one another (and reinforcing each other's nationalist fury), the Serb and Croat leaders colluded to carve up Bosnia. Later, as Kosovo's war loomed, some Kosovar leaders openly said they preferred to have Mr Milosevic in Belgrade rather than any softer Serb politician: the tyrant's ugliness lent weight to their cause. Indeed, the Kosovars could have voted him out by ending, just for a day, their boycott of Serb politics, but they left him be.

Nor were all the people who condoned Mr Milosevic from the Balkans. Plenty of western leaders were hesitant to challenge him, and there were clear reasons for their queasiness.

Perhaps a show of force at the start of the Bosnian and Croatian wars could have nipped the conflicts in the bud. But once Bosnia's horrors started unfolding, there seemed no easy way to make a "storming intervention" without paying a huge human and political cost. So the West tried to contain the war—by treating with Mr Milosevic. He was induced to turn the screws, at least partially, on his protégés in Bosnia, and duly rewarded.

In 1995, when hundreds of peacekeepers were taken hostage by the Bosnian Serbs, Britain and France were desperately grateful to Mr Milosevic and his security chief, Jovica Stanisic, for negotiating their release. In those days, many Americans used to scorn the Europeans as soft-minded appeasers. But then America struck a Bosnian peace deal that made Mr Milosevic not just a partner, but a privileged one. At the time, that looked like good statecraft—and in fairness to the Dayton accord, it was a clever mixture of short-time partition and long-term reconciliation. Rightly or wrongly, Mr Milosevic was deemed integral to the deal.

And he was paid off: after Dayton, the Milosevic regime raked in hundreds of millions of dollars by privatising Serbia's utilities—transactions that could have been stopped by one wag of an American finger. Only in 1999, as Kosovo's tragedy deepened, did western policy shift towards confronting the Serb bully. Even as NATO's bombs fell, many Serbs thought the West was being careful to spare their leader, who would soon be needed to make peace. And so he was—even though, soon afterwards, he faced war-crimes charges. A bit late, many said: the intelligence data about Serb crimes in Bosnia and Croatia which shaped the indictment had been available for years—why were NATO governments so slow to hand it over?

Those tempting tyrants

In fact, the dilemma Mr Milosevic posed to western policymakers is pretty common. It can arise in any regional war

where drastic intervention looks hard—either because voters lack the stomach, or because the human and military costs look too high. In such a case, politicians will ask, what alternative is there but to “sup with devils” and strike deals?

And in any war zone where chaos or catastrophe looms, a tyrant with enough power to strike and deliver bargains is a tempting interlocutor. But remember—today's deal-maker on one front can become tomorrow's trouble-maker on another; and confronting a monster may ultimately be harder if you have spent many years playing down his monstrosity.

Take Saddam Hussein. America's case for overthrowing him, on grounds of his egregious wickedness, would have had more legitimacy if he had not been treated, two decades earlier, as a good pawn in the game of containing Iran. That is not just an ethical point; coddling tyrants has strategic costs too. In a diabolical world, you may have to sup with devils some of the time. But don't sit too long at the table, or offer too many tasty dishes—especially if you expect to fight them one day.

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American democracy

Competition calls

Mar 16th 2006
From The Economist print edition

Postal voting may persuade a few more Americans to vote. But fix redistricting first

AP

DEMOCRACY can be a messy business—as America is discovering in the Middle East. But there are also messes closer to home. The fierce 2004 election, where both sides spent millions getting their supporters to the polls, saw turnout jump to 61% of eligible voters (against 51% in 2000). But nobody expects that to last. This year's mid-term elections may entice out a third of the electorate—a smaller share than voted in Baghdad or Gaza. In some safe districts, the support of one voter in ten should be enough to re-elect a congressman.

Political apathy is not always a bad sign: it can indicate a contented electorate. But in America most voters are unhappy with the choice offered. For a time, the great hope was direct democracy. Ballot initiatives, notably California's famous tax-cutting Proposition 13 in 1978, seemed a way to re-engage voters. They have not worked. Rather than being the people's last resort to deal with big simple questions (capital punishment, for instance), referendums have become the lobbyists' first ploy to push through the small and the complicated. And they have hurt representative democracy. California is the most dysfunctional state in the union because so much of its budget is prescribed by initiatives.

This week, we look at two ideas which in different ways are supposed to make American politics more enticing to voters (see article). Postal voting is now being embraced by much of the western United States. Oregon is “mail only”. There have been teething problems—notably the messy Washington governor's race in 2004. And there are absurdities that need to be corrected, such as counties (which are saving money anyway) forcing voters to pay for the postage. But voting at home gives people more time to read those complicated ballot propositions and also to research candidates, especially in local races.

The other idea, term limits, is an old stalwart of the right. It satisfies a healthy American desire to throw the bums out occasionally. Twenty states have voted for restrictions on the amount of time people can serve in the legislature, though only 12 have got them (because courts or—here's a surprise—legislatures have managed to block them). But there are problems with term limits, both in principle and in practice. In principle, denying anybody the chance to run for office seems illiberal, barring a few exceptional posts (such as the presidency). In practice, term limits have not shaken up the political class: members have simply reappeared under new guises.

The best way to make Americans interested in politics is to make the races more competitive. Participation jumped in 2004 because the presidential race looked both close and important. Which points to the most glaring problem of all with American democracy—partisan redistricting. Virtually all the states allow their politicians to gerrymander the boundaries of their districts, creating absurdly-shaped patterns. This makes races pathetically predictable: 98% of congressmen are re-elected, a ratio Leonid Brezhnev might have admired (though even the Soviet fixer would surely have felt the 100% outcome for California's incumbents in 2004 was a tad too obvious). It also drives politicians to the extremes, as they court their real electors, party activists in the primaries.

With luck, a particularly naked bit of redistricting by the Republicans in Texas will force the Supreme Court to make changes—and force states to follow Iowa's lead and hand over redistricting to an independent board. Democracy may be messy; but there is no point in making it a farce.

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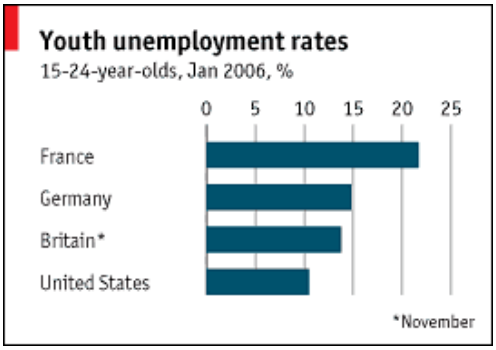
France's labour laws

In rare praise of Dominique de Villepin

Mar 16th 2006
From The Economist print edition

French students are missing the point of the government's labour-market reform



REVOLTING students unnerve French governments. In May 1968 they forced de Gaulle to dissolve parliament and, a year later, to step down. In the 1980s they made the prime minister, a certain Jacques Chirac, abandon university reform after a student was killed by police during protests. And 12 years ago they led Edouard Balladur, another centre-right prime minister, to give up a planned youth labour contract after widespread demonstrations.

Given this history, the latest outbreak of student unrest in France—which has included the overnight occupation of the Sorbonne by students for the first time since May 1968 (see article)—is a testing moment for the nine-month-old government of President Jacques Chirac's current prime minister, Dominique de Villepin. The students' target is a new, more flexible job contract for youths under 26. They argue that it will institutionalise insecurity and do nothing to reduce unemployment. They are right to say that it is not a complete answer to France's endemic problem of high joblessness. But they are wholly wrong over the reasons why.

France has acute problems getting its young people into work. The unemployment rate for 15-24-year-olds is almost 22%, one of the highest in Europe. Mass access to the school-leaving exam and to universities has not been matched by more jobs for the young. Fewer than 30% of French 15-24-year-olds are in employment, way below the OECD average and half the rate in Britain. And many of those with jobs are on short-term contracts that often last no more than a couple of months; they find it hard to move into steadier work.

Respectable objections can be raised against the new contract, even so. If Mr de Villepin really wanted to stimulate job creation and bring down overall unemployment from its near-10% level, why segment the job market into different groups, granted different treatment? His latest contract follows an earlier one, with similar firing rules, that was introduced for firms employing fewer than 20 people. It would be more sensible to replace the whole of France's two-tier system—with comfortably protected jobs for “insiders”, including public-sector workers, and less secure short-term contracts for outsiders—with a single, more flexible job contract for all. Olivier Blanchard, a French economist at America's MIT, has suggested that such a contract might carry job security that increases with the length of time an employee spends in the job.

Mr de Villepin's new contract could end up deepening the divide in the job market, if employers transform permanent jobs into less secure ones under the new contract. Or, after their two-year probation period, employers might opt to recycle recruits into yet more short-term work rather than switch them to permanent contracts. As long as France props up a heavily protected top tier, which makes it extremely hard to shed workers, most employers will seek to exploit lower-tier contracts to avoid taking on staff permanently.

Yet the choice that France faces is not between the new job contract and a more radical overhaul of the entire labour market. The students are not demanding a more widespread reform: they simply want the nice secure permanent jobs that their parents once had and that their teachers have still. Nor are the opposition Socialists, whose leaders have queued up to condemn the new contract, and some of whose deputies are contesting its legality in France's highest court.

Poetry is in the street

Moreover, the new contract was devised partly in response to last autumn's rioting in France's troubled suburbs. Indeed it is not meant primarily for students, many of whom will not even graduate before they reach 25, at all—but rather for those who leave school with no qualifications and face unemployment rates as high as 40-50%. For them, even two years under the new job contracts would offer work experience that might lead on to something better than a life on the dole.

Above all, Mr de Villepin's new contract introduces an essential principle that is now largely absent from the labour market: that if it is made too hard to fire people, employers will not hire them in the first place. The prime minister may yet back down, like so many of his predecessors, in the face of continuing protests. But if he holds firm, and the new contract turns out to be popular with employers, it might then be extended further up the labour market, with benefits all round.

French students are right to fear insecurity, but not the sort that they are protesting about. The country's real shame—and the biggest contributor to last autumn's riots—is mass unemployment, which has been barely dented, by governments of left and right alike, in two decades. One in ten workers is out of a job; one in four among young people; and one in two on the roughest estates. That is genuine insecurity.

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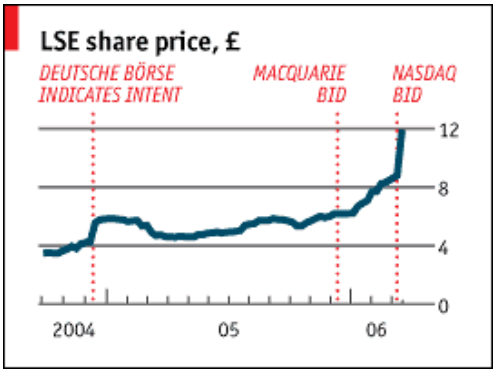
Stock exchanges

Coming together

Mar 16th 2006
From The Economist print edition

The prospect of a transatlantic merger is long overdue



THE would-be acquirer was founded in New York 35 years ago as the world's first all-electronic stockmarket. Its quarry is one of the oldest exchanges, tracing its history back to the coffee-houses of 17th-century London. NASDAQ, based in New York, and the London Stock Exchange (LSE), which last week became its target, are as different as bull and bear.

But then pretty much every feasible exchange is caught up in the frenzied talk of consolidation just now. In the past 15 months the LSE has been pursued by a string of foreign suitors, from continental Europe and Australia. Deutsche Börse and Euronext, two big European exchanges that have eyed the LSE in the past, sound increasingly interested in merging with each other. The New York Stock Exchange (NYSE) may yet bid for the LSE or another exchange. Even Chicago's futures and options exchanges have become tangled in the speculation.

One world

These mergers are being seen as a step towards the creation of global financial exchanges, a glint in the eye of anyone for whom the existence of the national bourse is as quaint as the existence of the national airline. Even if the reality falls short of world exchanges, consolidation is long overdue for those who need capital or who have capital to supply. The question is what to do about the markets' regulators, still stuck back in their national—or even regional—bunkers.

In some ways NASDAQ's bid has been a long time coming (see article). Its origins lie in three trends within the industry. The gradual takeover by electronic trading has shifted the economics of the exchanges. Users want speed and reliability—witness the Tokyo exchange's humiliating mess earlier this year when it was unable to handle the collapse of livedoor, a troubled internet and finance company. Speed and reliability lead to calls for expensive computer and communications systems, which become dramatically more profitable as they carry more trading. At the same time, exchanges have one by one abandoned their status as clubs and mutuals. This has created companies with the motive to expand, a clear-enough governance structure to allow for a strategy of expansion, and the currency with which to buy another exchange.

The third factor behind mergers is the demands of the exchanges' users—whether they are trading stocks, bonds, derivatives or commodities. The investment banks and hedge funds that account for a big chunk of the day's trading volume use complex strategies that leap across national borders and asset types. At the moment, these often require a patchwork of trades using different exchanges with different technology. Users dream of a time when even the most intricate trade will be possible by pushing a single button.

Everyone stands to gain from consolidation. The users win economies of scale, in the form of lower fees, and the ability to move capital quickly and easily across borders. Anyone raising capital can gain from the efficiencies, because more liquidity and cheaper trading will tend to mean a lower cost of capital. And the exchanges do well, too, because they can offset the fall in fees by higher volumes.

So where is the rub? One worry is competition. The exchanges will pass on the efficiencies only if they face the threat of business going elsewhere. Some of this can come from off-exchange trading, but users have no better safeguard than the sort of arch-rivalry that exists between NASDAQ and the NYSE. Thus far, European traders have benefited less from competition. More than a few investment bankers were furious this week when Euronext announced that it was returning €1 billion ($1.2 billion) to shareholders—without cutting trading fees. That is one reason to prefer a transatlantic tie-up for the LSE over an all-Europe deal. With NASDAQ and the NYSE at each other's throats, if one were to win the LSE, the other would very possibly look elsewhere in Europe.

The second worry is regulation. As all that money and information whizzes around the globe, financial regulators—even the best-intentioned—too often get in the way. Prey to national politics and industry lobbying, regulators are not inclined to compromise across borders. (The state of Hesse, which regulates Deutsche Börse, this week sanctioned a merger with Euronext only if it bolsters Frankfurt's position as a financial centre.) On the other hand, a single global regulator would not only be impractical, but, unchecked by rivalry from market regulators elsewhere, would also be most likely to turn out a bad steward of the markets. Competition extends not only to big exchanges, but big regulators, too.

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Israel's Jericho raid

The shape of things to come

Mar 16th 2006
From The Economist print edition

A microcosm of the perils ahead in the West Bank and Gaza

AFP

IF YOU are trying to work out the rights and wrongs of Israel's murky raid on Jericho's prison this week, you have your work cut out. The rights and wrongs depend entirely on what you think the Palestinian Authority (PA), under whose control the six men Israel wanted were held, is actually for. And what you think the PA is for depends largely on what you think about the bigger rights and wrongs of the conflict in Palestine. The real significance of the Jericho episode resides not in whether it was a pre-election stunt by Israel, or whether there was collusion between the Israelis and the British, as some have speculated (see article). It is that Jericho was a perfect, worked example of the shape of things to come once a new Israeli government squares off next month against a new Palestinian Authority run by the Islamists of Hamas.

The facts of the Jericho case are simply stated. Israel said it snatched the men because it had an agreement which the PA was about to break. Israel's target was Ahmad Saadat, a Palestinian the Israelis accuse of having ordered the murder of one of their cabinet ministers. Israel had cornered Mr Saadat before, when he hid in Yasser Arafat's besieged Ramallah compound in 2002. That siege ended with a compromise: the PA would lock up the wanted men in Jericho, if American and British monitors made sure the Palestinians kept their word.

That the Palestinians broadly did, even though Mr Saadat was given rather more liberty during his incarceration than the monitors had stipulated. He was able, for example, to campaign for and win a seat in the Palestinian parliament in January's election. The same election brought victory for Hamas. Its leaders see Mr Saadat as a hero, not a murderer. They said they intended to let Mr Saadat and his friends go. Mahmoud Abbas, the PA's president, hinted that he would agree. From that moment, the Israelis resolved to prevent this from happening. As soon as the international monitors left, the Jericho deal was in effect dead and Israel pounced.

The quarrel in Jericho sums up the lethal ambiguity that now pervades all relations between Israel, the PA and the outside world. Israel says the authority's job is not only to run the West Bank and Gaza but also to prevent violent attacks on Israel. That was the essence of the Oslo bargain Arafat agreed to in return for being allowed to bring his Palestine Liberation Organisation back from exile and set up shop in Palestine itself. When the *intifada* broke out six years ago, the PA's observance of the bargain became increasingly notional. Why, after all, was the supposed killer of an Israeli cabinet minister given refuge in the Arafat compound? But when it was under the control of Arafat's Fatah organisation, the PA did at least continue to pay lip service to Oslo. Mr Abbas still does.

The incoming Hamas government does not. It calls “resistance” the right of any occupied people. In this it speaks for most Palestinians, whose faith in Oslo vanished with Israel's continued colonisation of the occupied territories and its violent response to the *intifada*. So what if Mr Saadat ordered the killing of an Israeli minister, ask Palestinians. Didn't Ariel Sharon rub out Hamas's entire leadership, from Sheikh Ahmed Yassin down? On paper, relations between the sides are still governed by rules, from the Oslo agreement to the Jericho deal to the “road map”. But the Jericho raid shows that, especially with the advent of Hamas, all these rules are on the brink of becoming null and void.

This way to mayhem

With no rules at all, how will Israelis and Palestinians co-exist, armed to the teeth and crammed cheek-by-jowl in a contested patch of land? Forget peacemaking: neither the rest of the world nor Israel has worked out how or whether to deal with Hamas. Optimists had hoped at best for a period of calm as a pragmatic Hamas consolidates and a pragmatic Israel makes another unilateral withdrawal. The lesson from Jericho is bleaker. Without at least tacit co-operation between Israel and Hamas, even a temporary calm may be too much hope for.

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On America's security and its ports, bribes, the ageing workforce, Thailand, Wal-Mart, dog muck

Mar 16th 2006
From The Economist print edition

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A deal unravelled

SIR – You missed the point regarding the negative reaction from Americans towards allowing a company from Dubai to operate in our major ports ("Trouble on the waterfront", February 25th). Based on its past performance on national security, people did not trust the Bush administration to make the right decision regarding the deal. This is the same administration that told us no one could have imagined anyone flying aeroplanes into buildings before September 11th, which was either a blatant lie or the worst admission of incompetence by any administration. They then assured us that they knew for certain Iraq had weapons of mass destruction that posed an immediate threat to the United States. And more recently, they failed to tackle the insurgency and violence following the occupation of Iraq, going out of their way to reject advice and help from more experienced voices who warned of such lawlessness.

Even if the Bush administration was correct in maintaining that the ports deal did not compromise national security, you can understand why most Americans wanted to see more proof. Yet again this administration has misjudged an issue of national importance through its failure to anticipate that, to a lot of reasonable people, the deal did indeed pose a potential risk. We have a simple rule in this country: three strikes and you're out. This administration is now continuing to try and play beyond strike four.

Jon Geist
Olney, Maryland

More grist for the Mills

SIR – The uncovenanted sum paid to David Mills, the husband of Britain's culture secretary, should not necessarily attract the prejudicial term "bribe" ("Tess of the Virgin Isles", March 4th). This implies that the payment was somehow negotiated in advance. Sensitive Italians used to distinguish the payment of rewards between on the one hand those paid for exemplary services rendered in the exercise of a profession, and on the other those going beyond the mere call of duty. The latter is called *mancia*, which is simply a tip.

Martin Lam
Reading, Berkshire

The generation gap

SIR – You rightfully exposed the absurd view that ageing populations are a problem for fixing rather than an asset to be invested in and benefited from ("How to manage an ageing workforce", February 18th). But in order to change current practice, the benefits that ageing populations offer must be made crystal clear: innovation flourishes when knowledge, skills, energy and experience are allowed to interact. Helping such innovation to thrive is the only way to secure the future health of European economies.

However, people have to remain healthy if they want to work longer. So although flexible employment policies are welcome, they won't have any impact if we fail to encourage people to manage their health proactively throughout the course of their life. Health plus longevity generates wealth. This is why the European Commission recently presented a study to European finance ministers emphasising the need for increased investment in preventative health-measures that will help secure the future vitality and competitiveness of the European economy.

Baroness Sally Greengross
London
Professor Robert Butler
New York
Professor Francoise Forette

Paris
Co-chairs, The Alliance for Health & the Future

SIR – Enough of your sniping at begonia-potting pensioners who "stay at home sipping tea". These "ageing layabouts" can be seen serving in charity shops up and down the high street, manning National Trust properties and working in countless other ways for charities. Have you calculated how much their unpaid work contributes to Britain's economy and general well-being?

Martin Nicholson
London

Thailand's election debate

SIR – Thaksin Shinawatra did not "win" the last Thai election ("Enemies of democracy", March 4th). He bought it, just as he bought support recently when thousands of rural folk were bused into Bangkok for a pro-Thaksin rally (they received several days' pay for their trouble). The rural poor, who have no access to unbiased information, are being cynically manipulated by a government that controls national TV and radio.

Which helps explain why the opposition demonstrations are not as undemocratic as you suggest. The protesters simply want to fix an inherently faulty system before elections take place. Although the "party list" voting system ensures that the same rich families will continue to rule Thailand, no matter what the election result, something urgently needs to be done to restore the checks and balances that have been systematically disabled by Mr Thaksin. The Constitutional Court, National Counter Corruption Commission and even the Senate have been taken over by his cronies. Are the protesters the enemies of democracy? No way. Enemies of "democracy", yes.

Nigel Pike
Phang Nga, Thailand

SIR – Like *The Economist*, I am no fan of Mr Thaksin, but I recognise and support his Thai Rak Thai party's legitimacy to govern. I accept that he has an electoral mandate and should not be removed from office based on income-tax loopholes. The opposition parties, former allies turned enemies and the like, are now joined in demanding Mr Thaksin's resignation but without any regard for the constitution. There will come a time when the opposition Democrats and their allies will also be faced with an unrepresentative, implacable "people's power" trying to force them out of office. Guess then who will vigorously defend their mandate based on the constitution?

Kal Patrabutr
Nonthaburi, Thailand

Studying Wal-Mart

SIR – Contrary to your assertion, the study by Global Insight on the economic impact of Wal-Mart explicitly addressed the issue of correlation versus causation in terms of the effect of Wal-Mart on jobs (Economics focus, February 25th). We built a robust model that controlled for the impact of other non Wal-Mart variables on retail sales employment, and we provided clear evidence for why a proxy variable was not needed. The findings by David Neumark et al, which you also cited, are at odds with other rigorous studies besides ours. We hope that new research will explore the impact of their complex methodology.

Nariman Behravesh
Chief economist

Chris Holling
Executive managing director

Global Insight
Lexington, Massachusetts

Where there's muck

SIR – Norcal Waste could find an export market in eco-friendly Europe for its new process of making methane from dog droppings in San Francisco ("The year of the dog", March 4th). For example, Paris, a leading producer of the stuff, wastefully obliges visitors to the city to carry it away stuck to their shoes.

Alan Baker
Paris

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Belarus

Waving the denim

Mar 16th 2006 | BARANAVICHY, BREST AND MINSK
From The Economist print edition

EPA

But it is hard to beat a dictator who would probably win even if he didn't rig the vote, as he does

THE same giddy feeling of taboos broken and shackles cast off; the same high density of pretty Slavic students; the same incipient frostbite. The thousands of Belarusians who gathered in the snows of Minsk for an impromptu rally earlier this month waved improvised flags of torn denim rather than Ukraine's orange symbol. Denim became their pride after an earlier demonstration was stripped of its banners by the police, and a young man whirled his denim shirt above his head. When he got out of hospital, his friends were outside, waving denim flags.

“These are the people”, says Alyaksandr Milinkevic, the main opposition candidate in the presidential election this Sunday, pictured above, “who have overcome their fear.” Emulating their southern neighbours, whose massed, rhythmic chants of “Yush-chen-ko” helped Viktor Yushchenko to Ukraine's presidency last winter, the Minsk protesters yelled “Mil-in-ke-vic” and “Freedom”. Yet for all the similarities, the outcome is unlikely to be the same. The reasons include the myopia of Russian foreign policy, the limits of western influence in this benighted corner of Europe and, most of all, Alyaksandr Lukashenka, Belarus's ruthless president.

There is only one president in Belarus, a landlocked, ex-Soviet country of 10m people, lying between Russia and the expanded European Union. This rule is not just for government. A few years ago, Mr Lukashenka ordered that he, and only he, could use that title: sports clubs that had presidents must have chairmen instead. With his egomaniacal gestures, his moustache, comb-over hairstyle and squeaky voice, Mr Lukashenka might be funny—were he not also a horrible autocrat.

Formerly the manager of a collective farm, Mr Lukashenka was elected president, on an anti-corruption ticket, in 1994. He quickly replaced (and banned) the flag of independent Belarus, waved by the Minsk protesters along with their denim, with the Soviet version. He retained the old name of the Belarusian KGB. And he set about ensuring that the relatively honest vote that brought him to power would be his country's last.

In 1996, a rigged referendum extended Mr Lukashenka's presidential term and neutered parliament. In 2004, another fixed plebiscite changed the constitution to let him remain president indefinitely. At the protest that followed, Anatoly Lebedko, an opposition leader, was dragged into a Minsk pizza restaurant and beaten. Mikola Statkievich, another opposition figure, was sentenced to three years' forced labour, which he is doing in the town of Baranavichy. After reveille at six, then roll-call, Mr Statkievich spends his days pointlessly sitting in a grotty electrical-repair shop, located, appropriately enough, on Soviet Street. Mikhail Marynich, a third politician, got five years in jail for stealing computers from his own workplace.

But the worst abuses of Mr Lukashenka's presidency came in 1999-2000, between the two referendums. Two politicians, plus a businessman and a journalist, disappeared; others vanished in sinister circumstances, or so some Belarusians allege. The worst abuses until now, that is. As a senior western diplomat in Minsk puts it, the

inference that Mr Lukashenka, like his counterparts in other post-Soviet states, drew from Ukraine was that “this is what happens when people become too free.” Invigorating as it was for the opposition, Ukraine's revolution has intensified Mr Lukashenka's repressiveness.

The restrictions are not only against politicians. Vague and pettifogging rules have been used to harass and close dozens of non-governmental organisations. “If we follow the authorities' orders, we will have these authorities for ever,” says Tatsyana Revyaka, of the Viasna human-rights centre (which, legally, no longer exists). And, as the presidential election drew near, the screws have been tightened.

People have been arrested simply for holding candles in public, a silent protest that is staged on the 16th of each month, the date of two disappearances. In the courts of Belarus, says Ms Revyaka, there is Soviet-style “law by phone” as the judges take their orders from the government. Training people for street protests, and discrediting the country abroad, are now illegal. Dissident students have been dismissed from universities: one student says that after opposition material was found in her room in Vitebsk, she mysteriously began to fail exams, and was expelled.

The revolution won't be reported

Meanwhile, the media has been utterly suborned. Until recently, Belarus had just one independent daily newspaper —or almost daily. Svyatlana Kalinkina, editor of the *People's Will*, explains that some print runs have been intercepted as they cross the border from Russia. After the Belarusian printer terminated its contract, apparently on government orders, the paper had to start printing in Smolensk. It cannot be sold in public kiosks or distributed by the state-run subscription system; it has been subjected to enormous fines. Then, this week, the Russian printer backed out too. On television, Mr Lukashenka forwent his campaign broadcast; a conspiracy-theory documentary about recent revolutions was shown instead. But his activities are given interminable, adulatory exposure.

That is one difference with Ukraine, where Mr Yushchenko enjoyed at least some favourable coverage. Another is the more certain prospect, in Belarus, of violence. There was a foretaste of this on March 2nd, when Alyaksandr Kozulin, another opposition candidate (learning from Ukraine, most opposition factions have united behind Mr Milinkevic), was assaulted, along with several supporters and journalists (the police shot the tyres of a car carrying some of them). One of his assailants was Dmitry Pavlichenko, the head of a special security service that is accused by Mr Kozulin and others of organising the disappearances. Mr Pavlichenko also directed the riot police who tried to obstruct the snowy opposition rally.

“They threw me on the floor and kicked me,” said Mr Kozulin, as he registered his injuries at a hospital. Inside the police station, he smashed a portrait of the president, defiance for which he may now face criminal charges. “If a candidate for president is arrested and beaten,” comments Mr Milinkevic, “there won't even be the imitation of an election.” Television portrayed the incident as a provocation staged with the connivance of foreign journalists.

To a politician like Mr Lukashenka, all this counts as legitimate campaigning. Another mark of his Soviet mindset is that only an overwhelming victory will do. A fraud-facilitating system of early voting, plus one-sided electoral commissions, should ensure that he gets one. “He's lost touch with reality,” observes Mr Lebedko, the pizza-restaurant casualty.

But the truth is that Mr Lukashenka could probably do without all the ballot-stuffing. There cannot be a genuinely free vote in a country as propaganda-saturated as Belarus. Yet if the counting, at least, were honest, he would still almost certainly win. A recent poll suggested 55% of voters back him, though one independent pollster suggests a 10% “fear discount” should be applied. Mr Milinkevic, however, after his patient, often obstructed door-to-door campaigning, reckons that 25% support the president, 25% the opposition, with half the votes up for grabs.

A big part of the president's appeal is negative: as he and the media constantly reiterate, in Belarus there has been no post-Soviet war and no terrorism. “For Belarus! For Stability!”, proclaim Mr Lukashenka's omnipresent placards. His citizens are encouraged to compare their lots only with warped portrayals of their neighbours. As Ms Kalinkina says, many believe Poland and the Baltic countries are blighted by poverty, and that Belarus is “an island of stability where people are happy because of their wise president”. The corruption and rivalries that have afflicted Ukraine's post-revolution government have helped Mr Lukashenka. The message relayed to Belarusians, says Mr Lebedko, is “why come to the streets and get frozen, when it's all about one clan replacing another?”

In fairness, Mr Lukashenka has had some positive achievements, foremost among them being the “Belarusian economic miracle”. Since the Soviet Union collapsed, Belarus has received little foreign investment, and has not privatised much: the state's share of the economy, already around 80%, is, if anything, growing. Taxes are high by regional standards. Ancient heavy industries and collective farms are propped up by subsidies; the president sets targets and berates his ministers on television if numbers disappoint.

And, up to a point, this dirigism appears to work. Official unemployment is 1.5% (though some say there is much hidden joblessness). Other ex-Soviet countries are still poorer than they were under communism; Belarus is richer. The average wage last year rose to $218 a month. Pensions have grown, and are paid on time.

All of which sounds distinctly modest. But bread and an absence of war is enough for many rural Belarusians, accustomed to surviving winter on home-brew and pickles. It is also enough for many of the residents of small towns, still adorned with statues of Lenin and Felix Dzerzhinsky, the founder of the Soviet secret police.

Outside Minsk, in the village of Ratomka, a toothless old woman carrying her bread and milk, who spent her working life on a collective farm, says that she and everyone she knows will vote “only for *Batka*”. *Batka* (roughly translatable as “daddy”) is how Mr Lukashenka likes to be known. Even her drunkard son, she says, votes for him. A contented old man says his days are peaceful, and he is not afraid at night (though, he adds, it's too bad that Stalin has gone). That Mr Lukashenka bothers to stage such flawed elections at all can seem baffling to outsiders; here, in the villages, they seem to impress.

Low-level menace

The statist economy is also Mr Lukashenka's main mechanism of political control. State employees work to one-year contracts, and are liable to be fired if they rebel, or refuse to sign pro-presidential petitions. No professions are exempt: rock bands that played at an opposition gathering in 2004 were banned from the airwaves. This low-level menace, rather than atrocities, is the reality of life for most Belarusians. “This is not North Korea,” concedes that senior western diplomat, “it's not even Turkmenistan.” Even Mr Statkievich's punishment in the electrical-repair shop is hardly the gulag. But it is unjust and it is dismal.

Revolutions can happen in divided nations, as events in Ukraine proved. There Mr Yushchenko defeated Viktor Yanukovich, the regime-backed candidate whom eastern and southern Ukraine overwhelmingly supported (and still do, as the parliamentary elections on March 26th will show). Like Ukraine, which had almost never been an independent state until 1991, the land that is now Belarus was always dominated by other powers: Russia, but also Poland and the old Duchy of Lithuania. To the west of Minsk in Novogrudok, on one of the country's few hills, are the ruins of the duchy's one-time capital. In Niasvij stands a Catholic church with lurid pink frescoes, built by the Poles in 1583. The western half of Belarus was part of Poland between the two world wars, and still has a big Polish minority.

Some like to think that this makes the west of Belarus as different as west Ukraine is from the east. Stepan Novoselchan, a pro-Milinkevic activist in the border city of Brest, says that the city's residents “go to the West more often, and know what a decent life looks like.” But, as he trudges around Brest's polling stations, trying to persuade election officials not to falsify the vote, that sounds optimistic. Some game students hand out pro-Milinkevic leaflets. “Lukashenka gives us money,” says an elderly passer-by, “what do they give us?”

Getting used to horrible things

The parts of its history that seems to have most shaped the sensibility of Belarus are the wars that have been fought across its invitingly flat land (though its forests proved as hospitable to partisans as the flatness did to cavalry, and later tanks). The second world war killed around a third of Belarus's population, and left scarcely a pre-war building standing in Minsk. Before and after it, Stalin's purges were severe. The nuclear disaster at Chernobyl in 1986 contaminated a fifth of the country. The legacy of this wretchedness is the powerful third force of Belarusian politics.

The nature of this force is captured by many of the jokes Belarusians tell about themselves. In one, a partisan is hung by his captors. Two weeks later, he is still alive. How did he survive? “I got used to it.” This apathetic adaptability is as quietly evident in the villages as the pro-Lukashenka enthusiasm. Maybe another president would be worse, says a man in Ratomka. A woman whispers that though *Batka* has his faults, she won't vote: “it won't influence the weather.”

Understanding this legacy, Mr Milinkevic emphasises the peacefulness of his campaign, and avoids the word “revolution”. But Mr Lukashenka understands it too. He makes allegations of coup plots and terrorism against the opposition, and spices the calumnies with anti-Americanism. The supposed evils of America strike a chord: the old man in Ratomka who longs for Stalin says the dictator should have nuked Washington. “The Americans give them money and pour them drinks,”

AFP

he says of Belarus's opposition.

Big daddy

America, which has labelled Belarus an “outpost of tyranny”, would indeed like to see Mr Lukashenka dislodged. George Bush recently met two wives of “disappeared” men. One of them, Svyatlana Zavadskaya, says Mr Bush promised that her case would not be forgotten. However, America does not have much influence in Belarus. The EU has more, but not much. It trades more with Belarus, and has imposed visa bans on some Belarusian officials. It is funding independent radio and television broadcasts into the country. But recent history has shown that, to help democratic forces in post-Soviet countries, the West needs both the means and the motives to do so. In Ukraine, it had both; while the role of foreigners there has been overestimated, they did help to prevent violence. In Azerbaijan, whose government rigged a parliamentary vote last year, energy considerations trumped democracy-building. In Belarus, there is little the West can do, however much it wants to.

There is, however, a country that can do much more. Russia and Belarus are in theory in the process of merging—though the process stalled after Mr Lukashenka realised that he might end up as a mere provincial governor. But under Vladimir Putin, Russia expresses its solidarity with its brother Slavs in more concrete ways. Belarus (and Mr Lukashenka) actually subsist on cheap Russian gas. It has been spared the price rises recently imposed on Russia's other neighbours. Belarus also imports Russian crude for lucrative refining, and exports products to Russia that would struggle to find markets elsewhere.

Defenestration?

That dependency, plus the popularity of Russian television in Belarus, means that Mr Putin could probably defenestrate Mr Lukashenka if he wanted to. And there have been signs that he might want to: in 2004, after Mr Lukashenka irked Russia, the gas was briefly turned off. It is widely believed that the Belarusian election was brought forward from the summer because Mr Putin did not want it to taint the G8 summit to be held in St Petersburg.

Mr Putin emphasises that Russia supports Belarus, not its government. But, as Mr Lebedko puts it: “Putin doesn't like Lukashenka, but he likes revolutions even less.” He also doesn't like intrusions into what he considers Russia's sphere of influence, and a buffer between it and NATO. Yet Mr Putin would probably swap Mr Lukashenka for a less embarrassing pro-Russian alternative. Opposition figures stress their Moscow-friendliness, but none has yet been convincing. Meanwhile, Belarus serves as a sort of laboratory for authoritarian ideas, some of which have been imported from Minsk to Moscow.

Wait for the bad news

The good news is that, young (51) as he is, and theoretically entitled though he is to remain president indefinitely, Mr Lukashenka's regime is unsustainable. His elderly supporters are dying. In the internet age, and with democratic neighbours to the west, his information blockade must crumble, though he has tried to maintain it by imposing new travel restrictions on students, and even mooted the idea of stopping child victims of Chernobyl going abroad for treatment. The “Belarusian miracle” also cannot last. Landlocked it may be, but there is a whiff of the Baltic about Belarus; it is more orderly than Russia, and a better candidate for democracy.

To get there, the opposition leaders need to remain united after the election, provided, of course, that they are not in prison: many opposition supporters have been arrested and fined on absurd charges in the past few weeks. Mr Milinkevic says they will “stay together until victory.” He is hoping that victory will come next week, and has urged his supporters to rally in Minsk on election night. Mr Lukashenka is ready for them. His KGB has publicised an alleged plot involving fake exit polls and self-inflicted bombings.

One of the biggest lessons of Ukraine is that revolutions can be unpredictable. But several of its other lessons may be pertinent. One is that revolutions need money: somebody paid for the floodlights and free food in Kiev. In Belarus, there are no oligarchs to bankroll the opposition; Mr Milinkevic's headquarters are in a shabby apartment block. On the other hand, Ukraine showed that, during a stand-off, the capital city is crucial. Mr Milinkevic is popular in Minsk, and word-of-mouth will let its residents know what is happening, even if television doesn't.

But Kiev's key lesson is that numbers are all-important: 5,000 or even 15,000 people can be violently dispersed; 50,000 are a different proposition. The leaders of Zubr, a youth movement, who will be in any protest's vanguard, say they are hopeful that, if their ranks are large enough, the security services will defect. But the riot police in Minsk look very young and very scared, and if Mr Lukashenka and Mr Pavlichenko were to give them the order to attack, they probably would.

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Iraq, three years on

Resolve, but no solution

Mar 16th 2006 | WASHINGTON, DC
From The Economist print edition

Drooping polls reflect widespread dismay at how George Bush has handled Iraq. But he remains determined to see the mission through

AP

STUNG by complaints that the media report only bad news from Iraq, the ABC News Baghdad bureau went looking for something cheerful. Its reporters found a new romantic television comedy, “starring the Danny DeVito of Iraq”. Sadly, while they were recording this upbeat tale, they were interrupted by the news that the impresario behind the show had just been shot dead.

There are two lessons one might draw from this unfunny episode. One is that Iraq is as big a mess as the evening news makes it look. The other is that the terrorists have learned to pick targets that will generate maximum news coverage. No prizes for guessing which thesis George Bush prefers. “The terrorists are losing on the field of battle, so they are fighting this war through the pictures we see on television,” he said on March 13th, the same day the ABC story aired. “They're hoping to shake our resolve.”

This weekend marks the third anniversary of the invasion of Iraq. The war is now decidedly unpopular, but Mr Bush's resolve appears unshaken. His mission remains “to defeat terror by promoting democracy,” he announced on March 13th. Three days later, a new version of the National Security Strategy promised that America would be “idealistic about goals and realistic about means”. The strategy paid more attention to working with allies than its notorious predecessor did in 2002, but it reaffirmed two of Mr Bush's core beliefs—the need to spread democracy and the usefulness of pre-emptive action against hostile states with WMDs.

In his speech on March 13th, Mr Bush tried to reassure Americans about two particular concerns. The first is the worry that Iraq is moving towards a civil war (see article). He acknowledged, more than usual, the setbacks his mission has suffered in Iraq, such as the bombing of the Askariya shrine, one of Shia Islam's holiest sites. But he claimed that Iraqis have “looked into the abyss” and chosen to oppose the violent minority in their midst.

He boasted how it was the Iraqi security forces, not coalition forces, who restored order after the Askariya bombing. The new Iraqi army now has “primary responsibility” for more than 30,000 square miles of Iraq, said Mr Bush—a threefold increase since the beginning of the year. By the end of this year, Iraqi troops should control more territory than the coalition. And he stressed how the security forces, currently dominated by Shias, were trying to recruit more Sunni Arabs.

The other issue that Mr Bush tried to deal with is one much anguished about in the American press—the challenge of improvised explosive devices (IEDs) which have killed so many troops in Iraq. Mr Bush argued that because IEDs now kill far more Iraqis than Americans, Iraqis are starting to inform on the bombers. The number of tips from Iraqis grew from 400 last March to more than 4,000 in December, said Mr Bush. Thanks to better intelligence

and better anti-bomb technology, nearly half of the IEDs in Iraq are disabled before they explode, and the casualty rate has halved in the past 18 months.

In a significant aside, Mr Bush added that some of the most powerful bombs were “clearly produced in Iran”. He gave warning that “such actions—along with Iran's support for terrorism and its pursuit of nuclear weapons—are increasingly isolating Iran, and America will continue to rally the world to confront these threats.”

It was a competent speech, and doubtless reassured some of Mr Bush's wavering supporters. But they are a minority. A Gallup poll released this week found that only 38% of Americans think the war in Iraq is going well, down from 46% in January. Only 32% think Mr Bush has a clear plan for handling the situation. Even fewer (25%) think the Democratic Party has a clear plan. But more think that Democrats would do a better job of handling Iraq (48%) than Republicans (40%).

Mr Bush's critics include both those who opposed the war in principle and those who wish he had prosecuted it more skilfully. Both groups are swayed by continuing spectacular atrocities in Iraq and impassioned criticism at home. Around the time of Mr Bush's speech more than 80 bodies were found dumped around Baghdad, mostly of men who had been bound and shot or throttled with rope.

The day before, Joe Biden, a centrist Democratic senator with a strong record on foreign affairs, predicted that if Iraqi politicians cannot form a unified government in the next six to eight weeks, the country will move closer to civil war. He added that this might even become a regional war, and lambasted the president for making speeches at home rather than getting on a plane and drumming up international pressure on Iraqi factions “to make the concessions that are needed.”

In Bush-bashing terms, that still puts Mr Biden some way behind the current darling of the left, Russ Feingold (see article). But other would-be presidential candidates have started offering the president reams of unsolicited advice. “It's absolutely critical that we reduce the size of the American presence” in Iraq, insisted John Edwards, who is courting the same activists as Mr Feingold. The former vice-presidential candidate wants a cut of at least 40,000 troops.

Yet most utterances from the Democrats are considerably vaguer. Barack Obama, a popular new senator from Illinois, said that “this year should be the year in which we start withdrawing our troops” (a position not necessarily at odds with Mr Bush's). He also suggested that America's security would be improved if it achieved “energy independence” (ditto), though strangely he stopped short of calling for oil-drilling in Alaska.

Top Republicans, meanwhile, are inclined to rally round a wartime president, but nervous that Americans might collectively lose their nerve. “We have to be realistic, but let's not get everyone so depressed that it's definitely going to fail,” said George Allen, a Virginia senator and presidential aspirant. Jack Kemp, a former vice-presidential nominee, thinks America could help the political process in Iraq by promising to be out by 2009 or the end of 2008, leaving no military bases behind.

Meanwhile, the foreign-policy commentariat is offering a wide variety of detailed game-plans for success, or at least for averting disaster. For instance, one of the war's main cheerleaders, Kenneth Pollack of the Brookings Institution, recommends securing the calmest parts of Iraq first, rather than concentrating American forces in Sunni Arab areas where the insurgency is strongest. That way, he argues, more Iraqis can establish normal lives more quickly. Political power and oil revenues should be decentralised, he says, and some powers transferred to a UN high commissioner, as happened in Bosnia.

By contrast, in the latest *Foreign Affairs* Stephen Biddle of the Council on Foreign Relations urges America to concentrate on brokering a compromise between the Kurds and Shia and Sunni Arabs by threatening to manipulate the military balance of power between them. To force the Sunnis to the negotiating table, America must threaten to arm and train a Shia-Kurdish army. To force the Shias and Kurds to compromise, it must threaten to pull out of Iraq prematurely, or back the Sunnis. Mr Biddle admits that such a radical shift from idealism to realpolitik would be “a challenge” to explain to American voters.

Indeed it would. Gallup says that two-thirds of Americans think history will judge Mr Bush by his record in Iraq. But he already knew that. So he has little choice but to press on, in the hope of finishing what he started.

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Terrorism trials

Bungled

Mar 16th 2006
From The Economist print edition

The confused trial of a self-confessed terrorist

AP

Moussaoui may be spared

IT IS the first and perhaps only trial in America of anyone charged with direct responsibility for the terrorist attacks on September 11th 2001—and it has been bungled. “I don't think in the annals of criminal law there has ever been a case with this many significant problems,” fumed Leonie Brinkema, the district court judge trying the case: “A trial, particularly a death-penalty case, cannot go forward with this many errors.”

Zacarias Moussaoui has already pleaded guilty to six counts of conspiracy connected to September 11th, three of which carry a possible death penalty. The sole question before the jury now is whether he should be executed by lethal execution or sent to prison for the rest of his life. After this week's disclosures of witness tampering, the trial has been adjourned to March 20th, but the self-confessed al-Qaeda terrorist now stands a good chance of escaping execution.

Although he has admitted conspiring to fly planes into American buildings, Mr Moussaoui, a 37-year-old French citizen of Moroccan origin, has always denied any prior knowledge of the September 11th attacks. He claims he was training to become a pilot for another later attack on the White House.

In their opening statements, prosecutors said that about half their case would rest on testimony by seven federal aviation officials. They had been expected to testify about how the September 11th attacks might have been averted if Mr Moussaoui had warned them about that plot when he was arrested four weeks earlier.

But Judge Brinkema became enraged on learning that these witnesses had been coached. In violation of her order, Carla Martin, a lawyer at the federal Transportation Security Administration, had allowed the witnesses to see transcripts of earlier court sessions, advised them what to say in court, and told one, who had been subpoenaed to appear as a defence witness, not to do so. She also told prosecutors that four government officials had refused requests by defence lawyers to speak to them. This, said the judge, was “a bald-faced lie”.

Huffing that, in her 20 years on the bench, she had never seen “a more egregious violation of the rule about witnesses,” Judge Brinkema told Ms Martin that she could face charges for her “misconduct”. But Mr Moussaoui should not celebrate too soon. The judge tried to bar the death penalty for him in 2003, after the government refused to allow him to call three other al-Qaeda prisoners as witnesses. But her order was overruled on appeal.

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Russ Feingold's censure motion

Damp squib or mutating monster?

Mar 16th 2006 | WASHINGTON, DC
From The Economist print edition

For "Bush censure" read "Clinton impeachment"

Reuters

Russ is angry, again

OVER the past few decades the Republicans have perfected the art of the "wedge"—using an emotive issue to divide the Democrats. This week Russ Feingold, a Democratic senator from Wisconsin, responded by inventing the auto-wedge—using an emotive issue to divide the Democrats. By tabling a formal motion of censure against George Bush for "illegally" wiretapping suspected terrorists without first obtaining a warrant, Mr Feingold provided the Republicans with their best bit of news for weeks. Or so it seemed at first.

Democratic activists believe that "censure" is the very least that Mr Bush deserves: what they really want is impeachment—or worse. Several leftish groups are working for his impeachment, with magazines publishing articles suggesting exactly how it might be done. But most Democratic leaders are worried about overplaying their hand. Polls show that wiretapping is one of the few areas where the public backs Mr Bush. And pushing too hard against the commander-in-chief of a country at war is dangerous.

The result was a Democratic food-fight. Senators from Mr Feingold's party reacted rather like a bunch of cartoonists being asked to poke a bit of fun at the Prophet. Barack Obama and Hillary Clinton couldn't find the words to comment on Mr Feingold's idea; even the loquacious Chuck Schumer was struck dumb for a merciful few moments. The activists wailed that the senators were a bunch of lily-livered Bush toadies who would all be ousted if they didn't toe the line.

And the Republicans? Having spent the past few weeks being beaten up (often by each other), they relished the chance to turn on their foes. Bill Frist, the Senate majority leader, tried to force an immediate vote on the motion. Ken Mehlman, the Republican chairman, sent an e-mail telling supporters: "Weakening our national security is their agenda. Is it yours?" Tony Perkins, head of the Family Research Council, claimed Mr Feingold came "perilously close" to the border between "justified opposition and treasonous conduct".

But there is more to Mr Feingold's move than just a week of embarrassment for his party: there is the smell of the future. To begin with, you don't have to be treasonous to worry that Mr Bush overstepped the mark when he decided to wiretap terrorist suspects without first getting permission from judges. Mr Bush says he has the right to engage in such wiretapping as commander-in-chief, and adds that he told leading congressional figures, including Democrats, about the wiretaps. But this is surely the sort of subject that Congress should debate, not shy away from.

Moreover, Mr Feingold is more than just a maverick. He is a third-term senator from a swing state who is positioning himself to be the liberal champion in 2008 (and is certainly a more appealing figure than Howard Dean). He also has a good record of being ahead of the curve. He was the first Democratic senator to call for the withdrawal of troops from Iraq.

There is little doubt that the Democrats will try to impeach Mr Bush if they take over the House or the Senate next November. And little doubt that Mrs Clinton *et al* will have to break their silence on whether Mr Bush's various misdeeds are "worse than Watergate" if they decide to run for his job. There is a chance that Mr Feingold's damp squib will one day mutate into a giant monster that consumes America's entire political system.

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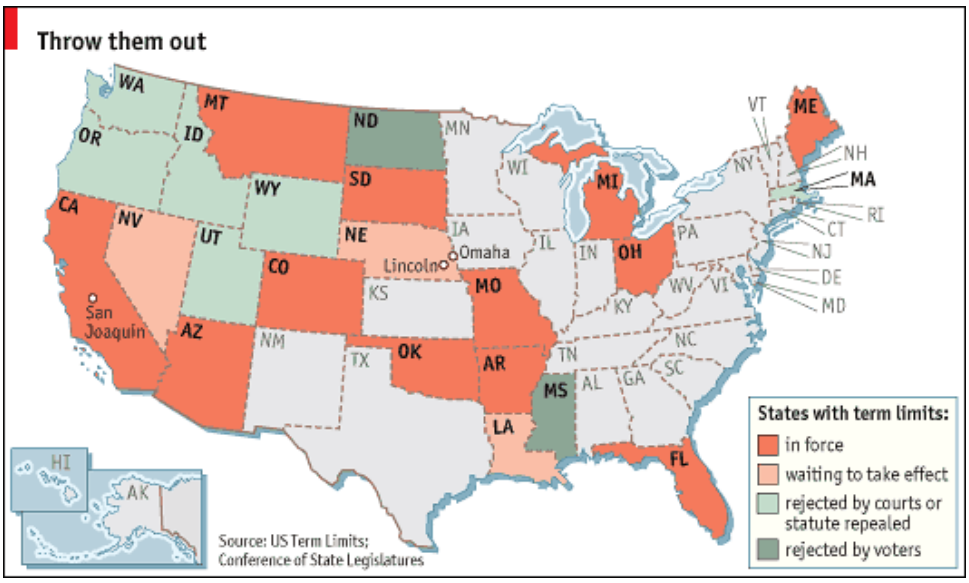
Term limits and democracy

Out with the old

Mar 16th 2006 | LINCOLN AND OMAHA
From The Economist print edition



Can American democracy be improved? The first of two articles (see the other) looks at a popular solution now being introduced rather severely in Nebraska: term limits

"HOW do you know you want to meet me?" asks Ernie Chambers, a state legislator from Omaha. "Just because I've been around a long time, that doesn't mean I'm not an idiot." First elected in 1970, Mr Chambers is the longest-serving member of Nebraska's legislature—and something of a thorn in the side of the state's conservative majority, whom he has irritated on issues ranging from police powers to gay rights.

That majority will no longer have to put up with him after 2008, thanks to a strict term-limit law that Nebraska passed in 2000. Mr Chambers will not be able to run again till 2016. On the other hand, he is lucky to last till 2008; 20 of the legislature's 49 members have to leave this November.

Term limits are one of the most popular policies in the country. Between 1990 and 2000, voters backed limits for state legislatures in 20 of the 22 states where they were given a say, by an average popular margin of two-to-one. They have already gone into effect in 12 states, with another three due to join (see map).

Incumbents and the courts have blocked term limits elsewhere. When Idaho's voters passed a term-limit statute, their legislature repealed it. When Wyoming's voters approved one, the state's courts struck it down. Utah's legislators passed a statute themselves, prompting voters to reject a redundant ballot initiative, and then repealed their own law when the heat was off. And so on.

Nebraska's citizens voted for term limits three times between 1992 and 2000, persisting when their first two tries were struck down by state and federal courts. After that long wait (and unless a pending legal challenge succeeds against the odds), they will soon get their wish.

Throwing the bums out is, of course, the main point of term limits. In most states, thanks to gerrymandering, it is notoriously hard to get rid of incumbents any other way. But in Nebraska, as in other states, voters have broader hopes: that term limits will usher in more "citizen legislators" and fewer cynical old pols. Don Stenberg, a Republican running for the Senate this year who championed term limits as the state's attorney-general from 1991 to 2003, says that some of the state's old-timers "have been playing golf with lobbyists for ten or 20 years".

But will it change? In some places, the faces do not even change. Well-known politicians move from one office to another when their term ends; or wait a few years and run again for the same chamber (only six of the 15 term-limit states have lifetime bans). Take for instance the two main actors in South Dakota's recent abortion ban. In

2000, the state's House Speaker, Roger Hunt, and its Senate leader, Mike Rounds, both lost their jobs to term limits. Now Mr Hunt is back in the legislature, and was the leading sponsor of the bill banning abortion; Mr Rounds, who is now governor, signed it.

Nebraska, the only state with a unicameral legislature, should be more protected against this sort of seat-shuffling. But that only introduces a second question about term limits: even if you change the personnel, do you change the culture? A few term-limited states have grown more ethnically diverse—there are a few more Latinos in California and Arizona and more blacks in Arkansas and Michigan—but at least some of these changes may be due to new district boundaries. California can claim a dozen more women in its Assembly than before term limits, but it is the exception. In many other states, fewer women have been elected, and overall there is no net change. The same applies to income, occupation, schooling and, perhaps most surprisingly of all, age.

Nebraska, whose legislature is currently whiter, older and more male than its population, will probably not see that much change either. Consider Pete Pirsch, a city prosecutor in Omaha. He is running to replace Kermit Brashear, the Speaker of the assembly. Up before dawn on a recent Saturday morning, Mr Pirsch sat at a local diner talking earnestly about crime and other problems in his state. “After a few years nothing happens,” he says, “and you say, ‘I guess I'm the one to do it.'”

Mr Pirsch seems sincere and sensible, but he is hardly a novel sort of candidate. He is a lawyer, and no stranger to public life: his mother, Carol McBride Pirsch, served in the state assembly until 1997. He also reckons that he can consider the job, which pays a mere $12,000 a year, only because of the income that his wife, a telecoms manager, brings in.

Nor is Citizen Pirsch competing against ploughmen and tavern owners. Kerry Winterer, perhaps his best-known opponent for the seat, was a national committee member for the Republican Party. Many idealistic reformers, says John Comer of the University of Nebraska, want their legislators to “come in from the farm and go back to the farm”. But in state after state, even after term limits, the jobs mostly go to people from the same background.

That does not mean the newcomers think and act the same way. Two claims are usually made on the newcomers' behalf: that they are less likely to fudge ideological battles with the other party and less likely to fall under lobbyists' sway.

The first seems to be true, even if increased partisanship can generate more parody than principle. After Colorado adopted term limits, the new Republicans introduced a bill imposing a cooling-off period on couples wanting a divorce, embarrassing Democrats who voted against it. In California, the parties clashed over whether to name San Joaquin dirt as the official state soil, while failing to pass a budget on time. Nebraska is a relatively unpartisan place: most of its politicians, including Democrats, are conservative.

As for lobbyists, the newcomers tend to be more suspicious of them than their predecessors. For instance, after Ohio's term limits kicked in, many of the new politicians would not even meet with lobbyists for the first few months. But eventually they tend to give in; indeed, some evidence suggests that inexperienced lawmakers need their expertise more. In the two years after term limits took effect in Maine and California in 1996, the number of lobbyists went up by 5%—a period when their number decreased elsewhere.

The group of politicians who gain most from term limits on state assemblies are the governors. Inexperienced lawmakers are easier to outsmart; they also tend to show less respect to committee and assembly leaders. Against a house divided and uninformed, the executive branch can do more of what it wants. Studies by various academics in collaboration with the National Conference of State Legislatures show that, after term limits, state assemblies challenge far fewer items of a governor's budget; and they ask fewer questions of statewide agencies.*

Paul Jacob of US Term Limits, the best-known advocacy group, argues that if executive branches are gaining power, then it is probably because governors (most of whom are term-limited) were too weak in the past. Term limits for assemblies, he says, are restoring the balance. Still, Mr Jacob concedes, the goal of those term limits was to shift power towards citizens, not towards governors and bureaucrats.

And awkward veterans like Mr Chambers also serve a purpose in standing up to the majority. Earlier this year, he cast the sole vote against a fetal assault bill, which would make it a felony to injure an “unborn child” during a crime. And his experience of parliamentary procedures helps Mr Chambers win occasionally. Last year, when settlement money from tobacco firms went to four Nebraska universities, he successfully stuck in a clause banning discrimination against gays.

Most conservative voters in Nebraska will be happy to see Mr Chambers go. But ornery dissidents are no bad thing in democracies. When asked why he is the only assembly member with no name on his door, after 36 years on the job, Mr Chambers answers: “Seek and ye shall find.” Well, at least for a little while longer.

* “Institutional Change in American Politics: the Case of Term Limits”, edited by Karl Kurtz, Bruce Cain and Richard Niemi; University of Michigan, forthcoming.

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Postal balloting

Stamp of approval?

Mar 16th 2006 | DENVER AND OLYMPIA
From The Economist print edition

Western states are closing down their polling stations. Should they?

AP

Democracy at work

EVEN in a time of tight races and election snafus, the Washington state governor's race two years ago stood out. Two months after the polls closed, a winner was declared—despite dead people having voted and, in parts of the state, more ballots being returned than there were recorded voters. “Some people say ‘count every vote’; it'd be better if you just counted every legal vote,” says Dino Rossi, a Republican who lost by a wispy 129-vote margin.

Yet Washington is forging ahead with the very election method that helped to muddle that crazy race: postal balloting. In 2004, nearly 70% of the state's voters filled in their forms at home, rather than going to a polling station. Now King County, home to Seattle, looks set to go to a mail-only system in 2007, doing away with polling stations altogether. The idea is that one system will be simpler. Ron Sims, the county executive, explains that this will be cheaper in the long term. And he thinks voters prefer it.

Polling stations are going out of fashion in plenty of western states. There are three basic forms of postal voting. The most common is absentee voting. If a voter will be out of town on election day, he can request a postal ballot. All states allow this, and nationwide about 13% of all ballots counted are absentee.

But some states, including California, go a step further by allowing voters to register as permanent absentees—so that at every election they will automatically receive a ballot in the mail, regardless of whether they are at away or at home. In the 2004 general election a third of the votes in California were absentee and 18% were permanent ones. In last year's special election, 40% of ballots cast were absentee ones with the figure being over half in many Bay Area counties.

The biggest switch is to allow mail-only voting. The pioneer was Oregon, where polling stations got axed in 2000. Arizonans will probably get a chance to decide in November whether to switch. In Washington and Colorado, that decision is left to counties—and most are making the change (the one twist being that in Colorado you are not yet allowed to go mail-only in even-year partisan elections).

An hour or two in the queue

The main reason to change is convenience. Western states are famous for masses of ballot initiatives that can take hours to decipher. “In 2000, think about what it would have been like in a polling place if you had to wait in line while every voter had to work through 26 measures,” says Bill Bradbury, Oregon's secretary of state. Oregon also helpfully sends everyone voter pamphlets, which give the background on both sides of an initiative.

Fans of postal voting claim that convenience increases turnout, especially in local races. In Thurston County, Washington (home to Olympia, the state capital), voting by mail has tripled turnout for small elections like bond issues, according to Sam Reed, Washington's secretary of state. In the 2004 election, Oregon's turnout—at 87% of

registered voters—was the highest in the nation, despite it being a safe Democratic state.

For election administrators, another big factor is cost. New federal and state voting regulations—such as providing services for the disabled or printing ballots in multiple languages—have hit counties' finances. Thurston County's clerk, Kim Wyman, thinks costs are 20-50% lower with postal balloting: you don't have to rent polling places or employ as many staff.

Postal ballots change the nature of campaigns because they usually arrive around a month before election day. In the old days, most campaigns built to a peak on election day. Now, argues David Kenney, a political consultant in Colorado, the peak begins earlier and lasts longer. Not only do you have to get your message across before the postal ballots turn up, you have to keep pushing. Up to one-third of voters return their ballots straightaway; then there is a lull, and then the flows become heavy as election day nears.

Going postal

Ballots in 2004 US general election

State	% of total votes	Absentee/postal as % of state votes
California	10	32
Colorado	2	30
Florida	6	17
New York	6	4
Oregon*	2	100
Texas	6	4
Washington	2	69

*Mail-only voting

Sources: Election Assistance Commission; Election Data Services

All this can double a campaign budget, reckons Mr Kenney. Television advertising is only part of it. The campaigns have to track down absentee voters, and they often send out absentee-ballot registration forms. Then they follow up, says Kam Kuwata, a Democrat consultant in California, with questions like: “Did you get your ballot in the mail? Could you take five minutes to fill in John Kerry for president?”

There are plenty of doubters. Greg Kolomitz, the campaign manager for Bill Ritter, a Democrat candidate for governor in Colorado, thinks that absentee ballots are a good way to track down infrequent voters; but he is not won over by the argument that postal voting increases turnout. Voters, he points out, usually have to pay for the postage, which annoys them.

There are other administrative concerns, too. What about candidates that withdraw late, or die before election day but after the ballot has been sent? Some voters don't realise their ballots must arrive by election day. Washington state does count ballots postmarked that day, but it can make for a protracted contest.

Washington state has just pushed its September primary forward to August, allowing time for all the postal primary votes to be returned well before the November ballot gets printed. Delays are also a problem in the general election: they can cause doubts about the result, especially if it changes after election day. One reason why Mr Rossi's supporters feel so aggrieved is because he appeared to have won. Conversely, a candidate who surges late in the polls can get a last-minute boost. Mr Reed was behind by 12,000 votes in Washington's secretary of state contest on election day, but ended up winning by 10,000 votes.

Stefan Sharkansky, a blogger based in Washington state (soundpolitics.com), followed the fateful 2004 gubernatorial race carefully. He says that signature verification was poor, allowing people to vote for others. Some people were caught—King County brought charges against a handful of people who voted for dead family members—but it is painstaking work. He also points to the loss of secrecy and the fact that, in disputed cases, it is harder to spot voter intent. A voting machine at a polling place should automatically stop a voter from submitting a double-marked ballot; but they can post them in.

All legitimate concerns, but things can also go wrong with normal voting—witness Florida's dimpled chads in the 2000 presidential race. In California, several big counties are lobbying the legislature to allow postal voting; they are in a panic because they are afraid that they will not have enough certified voting machines ready for the primaries in June.

Voters seem to like the postal option and the courts have yet to be convinced that it is more faulty that normal voting. Oregon's system has survived several challenges. Western electoral officials argue that once again they are ahead of the curve, and their more sluggish peers in the east will follow suit. They may be right.

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Lexington

The Bush legacy

Mar 16th 2006
From The Economist print edition

It may last a lot longer than you think

GEORGE BUSH still has just over a thousand days left in the White House—about as long as the Kennedy presidency. Yet as far as many people are concerned he's halfway out of the door. Republicans in Congress have started breaking ranks, most spectacularly over foreign (ie, Arab) ownership of American ports; conservative intellectuals have started lobbing hand grenades (the venerable William Buckley recently branded the Iraq war a "failure"); and would-be successors have started measuring the White House curtains.

None of which is surprising. Mr Bush's poll numbers are dismal. The White House staff is accident-prone (one recently departed domestic adviser just got arrested for shoplifting). And presidential campaigns have to start early when the entry ticket costs $100m. But anyone who thinks that the Bush era is over should pick up a biography of Ronald Reagan.

In 1987 the *National Journal*—the bible of the Beltway crowd—ran the headline "Reagan now viewed as an irrelevant president". The failure to get Robert Bork onto the Supreme Court, the stockmarket crash, the Iran-contra affair, Reagan's advanced age—all bespoke irrelevance. Yet Reagan not only went on to regalvanise his presidency with a foreign-policy coup (the end of the cold war, more or less); he also became a "consequential president"—a man with a substantial legacy. Mr Bush looks unlikely to pull off a coup of Reaganesque proportions. But he is still shaping policy aggressively on all sorts of fronts—and his legacy could be much bigger than people realise.

This is partly because the White House is still doing a lot of conservatism by stealth. The *New York Times* recently pointed out that, behind the scenes, the administration is continuing to make steady advances—particularly through its control over powerful executive agencies. The Food and Drug Administration is holding up over-the-counter sales of the "morning-after pill". The Environmental Protection Agency is delaying green projects by insisting on cost-benefit analyses. And the Bureau of Land Management is making it easier to drill for oil and gas on public lands. Across the nation feminists and greens are hopping mad, whilst oilmen are punching holes in the virgin soil: what could be more conservative than that?

Looking at the broader picture, Mr Bush's critics tend to see his legacy entirely in negative terms. They have a point. Whoever succeeds him will have to clean up not just Iraq but the deficit. In fiscal terms, moving into the White House in 2009 will be like inheriting a mansion from a drunk uncle: it's a nice house, but the roof is falling in and there's nothing in the bank. But if you can force yourself to look beyond the administration's proven incompetence, Mr Bush has also done more positive things to steer his successor's hand both at home and abroad.

Abroad, even allowing for the disaster in Iraq, something will surely survive of the Bush doctrine. Future presidents may not want to rush into pre-emptive attempts to democratise the Middle East. But America will continue to be hyper-sensitive to the potential nexus between terrorist groups and WMD. It will continue to engage in a complex

struggle with radical Islam. And it will continue to be the world's de facto policeman. The biggest challenge facing Mr Bush's successors will not be to junk his foreign policy but to tame it and implement it more competently.

At home, Mr Bush's legacy in domestic policy will be more than just red ink. His No Child Left Behind Act, which tries to introduce accountability in public education by measuring performance and punishing failure, is likely to survive his departure, if only because it draws on ideas with bipartisan support. Mr Bush has also helped promote school vouchers. One scheme provides $70m to send 1,700 Washingtonians to private, mainly religious schools for the next five years; Congress has also passed a $500m voucher scheme for the victims of Hurricane Katrina. Any Democrat running for president will doubtless criticise these programmes (to suck up to teachers' unions); but it will be hard to axe them without a fuss from thousands of poor parents.

Mr Bush has also changed the judiciary dramatically—not just by appointing John Roberts and Samuel Alito to the Supreme Court but also by filling about a quarter of the places on federal appeals courts with conservatives. You can quibble with this achievement. Mr Bush had plenty of help: the conservative movement has been minting little Robertses and Alitos for 40 years. It is also true that he took an unfortunate diversion, signposted Harriet Miers. And Messrs Roberts and Alito may turn out to be less conservative than people think. But the betting is that Mr Bush has reshaped the judiciary for a generation.

George and Karl's excellent adventure

Finally, there is the political legacy. Mr Bush and his main political adviser, Karl Rove, hit on a political formula that succeeded in holding the right together while appealing to just enough moderates to win elections. Small-government conservatives resent his spending, but cutting middle-class entitlements (alas) guarantees electoral failure. Fiscal conservatives resent his deficits, but middle Americans love their tax cuts (the Democrats may condemn his tax cuts as being sops for the rich, but they have also voted to prolong some of his “temporary” cuts). Libertarians resent Mr Bush's social conservatism, but libertarianism is a philosophy for the salons, not suburban living rooms. Paleo-conservatives regard him as a wuss on immigration, but the Republicans would be insane to alienate Latinos. None of this is pretty, not much of it is principled, but it works.

The Bush formula will be picked apart over the next thousand days—especially if the White House stumbles on from disaster to disaster. But any Republican who wants to put together a ruling government coalition will find that they have no choice but to put the formula back together.

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Coca and cocaine in the Andes

One step forward in a quagmire

Mar 16th 2006 | BOGOTÁ, LIMA AND SÃO PAULO
From The Economist print edition

Progress against coca in Colombia is threatened by the perilous politics of the drug "war" and, as always, by market forces

LA MACARENA National Park is a dramatic mountain ridge that cuts like a serrated knife through the tropical grasslands of Colombia. It is a refuge for dozens of species of wildlife found in few other places on earth. But recently it has become a new front in the "war" on the cocaine industry that the United States and its allies have now been waging for a generation in the Andean states of South America.

Each day, hundreds of peasant labourers march through the park, spades in hand, to plots planted with coca, whose leaves are used to make cocaine. They yank out bush after bush under the eye of more than 1,000 police. That protection could not save José Bermúdez, a young labourer, who was killed on March 10th when he trod on a land mine placed by the Revolutionary Armed Forces of Colombia (FARC), the leftist guerrillas who control the coca fields of La Macarena. In all, the FARC have killed 13 police or eradicators in the park this year.

In its first three years, the government of Álvaro Uribe, Colombia's president, unleashed a massive programme of aerial spraying of coca crops with weedkiller (at a cost of $200m a year paid by the United States). This cut the coca crop by between a third and a half, according to the United States' State Department and the United Nations Office on Drugs and Crime, both of which try to guess the size of the crop (see chart below). But spraying is controversial. Critics say it wipes out food crops and may damage health. And to evade it, coca is no longer grown in vast plantations but in thousands of tiny plots—some in national parks like La Macarena where spraying is forbidden under Colombian law.

A year ago, Mr Uribe's officials launched a big manual eradication effort in parallel with spraying. In 2005 the civilian army of peasant eradicators uprooted more than 31,000 hectares (77,000 acres) of coca; this year, the government hopes for 40,000 hectares. Yet this Herculean effort may be in vain.

In November, the drug warriors in Washington, DC claimed a small victory. After years in which cocaine has been cheap and abundant, its retail price rose last year by 19%, while its average purity declined by 15%. They attributed this to the massive eradication effort in Colombia.

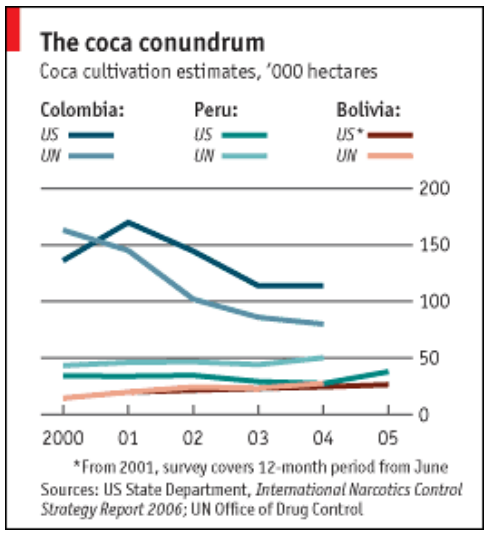
Yet victories in the drug “war” have long proved illusory because of the protean geography of the cocaine industry. A decade ago, the bulk of coca-growing shifted to Colombia from Peru and Bolivia. Now coca cultivation is on the rise again farther south. The State Department's latest estimates, released on March 1st in its annual drug-control report, showed an increase over the past year of 38% in Peru (to 38,000 hectares) and a smaller, but steady, rise in Bolivia (to 26,500 hectares). The latest UN estimate, released in June 2005, was even higher for both countries. Though this trend is a “problem”, coca is still mainly grown in Colombia, points out Anne Patterson, the senior anti-drug officer at the State Department and a former American ambassador in Bogotá.

But while Mr Uribe seems set for a second term (see article), eradication faces a new political challenge in both Bolivia and Peru, countries which until recently were seen as success stories in the drug “war”. Evo Morales, long the leader of Bolivia's *cocaleros* (coca farmers), won a landslide victory in a presidential election in December. He says he will halt forcible eradication. He also says that he opposes cocaine and the drug trade, but wants to promote new uses of coca. These include pharmaceuticals and, improbably, biscuits, bread and chewing gum.

In Peru, Ollanta Humala, a nationalist former army officer, might win a presidential election whose first round is next month. He has two *cocalero* leaders in his parliamentary lists and says, like Mr Morales, that he would stop eradication.

Since taking office in January, Mr Morales has given signs that he would prefer to avoid a fight with the United States. On March 11th, at the inauguration of Chile's new president, he met Condoleezza Rice, the secretary of state, and presented her with a *charango* (a Bolivian ukulele) decorated with lacquered coca leaves.

Avoiding a clash may be hard. Mr Morales faces pressure to allow more coca in the Chapare, a big centre of the drug industry a decade ago. Under an agreement suspending forced eradication there in 2004, 3,200 hectares of the shrub are tolerated pending a study on how much is required for traditional uses, such as chewing and tea. Another 12,000 hectares are grown legally in the mountainous Yungas region.



The Chapare accord works out to one *cato* (a measure equal to 1,600 square metres) for each of the 23,000 families who signed up to it. Now the *cocaleros* want to expand that number. That might not make much difference: Mr Morales's predecessors turned a blind eye as 40,000 families took advantage of the one-*cato* rule.

Mr Morales is unlikely to take them on. He wants to amend the 1988 law that limits legal coca to 12,000 hectares. Any new limit is likely to be negotiated rather than imposed. He has also said he wants to strip the army of its role in fighting drugs—seen as “mission essential” by John Walters, the United States drug “tsar”.

Both the United States and Bolivia now face stark choices. The Americans must decide between the drug war and supporting democracy. Their options include withdrawing aid and vetoing loans to South America's poorest republic. Mr Morales, for his part, knows that more coca would boost Bolivia's drug industry, which in the past had fascist links.

The two countries are in an “uncomfortable détente”, according to Kathryn Ledebur of the Andean Information Network, an NGO. She sees in the moderate tone towards Bolivia in the State Department's report signs of a “more strategic approach” to coca. But reaching a deal—which could involve a harsher crackdown on trafficking and more aid for alternative crops—will not be easy. “We want to work with the government,” says Mrs Patterson. But if coca returns on a large scale in Bolivia “it will undermine all the effort we've undertaken in Colombia,” she adds.

Peru may be potentially the weakest link in the Andean anti-drug chain. Despite 12,000 hectares eradicated last year, the State Department reckons there is more coca than at any time since 1999. After *cocalero* protests, the government of Alejandro Toledo scaled back eradication. The remnants of the Shining Path, a Maoist terrorist group, are said by some analysts to be strengthening their grip over the drug trade, in a pattern familiar in Colombia. “Peru is moving towards becoming a drug state,” says Jaime Antezana, a sociologist who has studied the *cocaleros*.

Even in Colombia, the success of the drug warriors is fragile. Manual eradication is far more laborious than spraying. An American study found that the manual teams pulled up an average of 20.5 hectares a day, while the spray planes covered 734 hectares a day. But unlike manual eradication, spraying may merely wipe out one harvest, rather than the plant.

The latest estimates for Colombia, due to be released later this year, may well show an increase in coca. American officials say replanting almost matches eradication. They admit their figures may be underestimates. The UN reported last year that 60% of the coca fields it detected in 2004 were new, some of them in virgin areas. There is

evidence, too, that yields are steadily increasing.

A “clear-cut victory” over coca is impossible, Mrs Patterson concedes. “It's just a question of containing it where it breaks out.” The problem is that containment carries heavy political costs for democratic governments in the Andes. The drug trade itself undermines democracy, but so do the heavy-handed American efforts to contain it. As long as rich-country governments insist on imposing an unenforceable prohibition on cocaine consumption, Andean governments will continue to be faced with the thankless task of trying to repress market forces.

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Colombia's legislative election

U for Uribe

Mar 16th 2006 | BOGOTÁ
From The Economist print edition

Set fair for a second term

Reuters

The president eyes the vote next time

HE WAS not a candidate, but the clear winner of Colombia's legislative election on March 12th was Álvaro Uribe. The president's supporters swept two-thirds of the seats in the Senate and won a clear majority in the lower house. That outcome suggests that Mr Uribe himself will win a second term in a presidential election in May, and, if so, that he should face few political difficulties in continuing his tough policies on security and drugs over the next four years.

In a region that has drifted to the left in the past few years, Colombia's politics stand out. Mr Uribe inherited a country torn by the violence of left-wing guerrillas, right-wing paramilitaries and drug traffickers. He has boosted the security forces, placing the army on the offensive against the FARC guerrillas. He also cut a controversial peace deal with the paramilitaries, under which all but a handful seem assured of an amnesty. That deal is now likely to survive. Assuming he is re-elected, Mr Uribe should be able to press ahead with tax and fiscal reforms and a free-trade agreement with the United States.

The popularity of Mr Uribe, together with a political reform law, has changed the structure of Colombian politics. Since the mid-19th century, the country has been run by two highly factionalised parties, the Liberals and Conservatives. The reform, aimed at making parties more coherent, confined each to a single list of candidates and imposed a threshold of 2% of the vote to win any seats.

The effect was to eliminate many smaller parties, but also to cause the Liberals, the biggest, to splinter. The Conservatives, who had almost disappeared, now support Mr Uribe, a former Liberal, and did well. The biggest winner was the “U” Party (that's U for Uribe), a group of Liberals who support the president. It took 20 of 102 Senate seats. Six other parties supporting Mr Uribe also won seats. The official Liberals suffered for their opposition to the president. Their tally of 17 Senate seats was down from 29 in 2002.

Mr Uribe had another cause for satisfaction. In an open primary election held in parallel with the legislative vote, Horacio Serpa was chosen as the Liberal presidential candidate. In 2002, Mr Uribe easily beat Mr Serpa, who is fighting his third campaign. The Polo Democrático, a left-wing party, may have seen its chances limited when Carlos Gaviria, the more radical of two contenders, won its primary.

What was unclear was how many of those elected have ties to the paramilitaries—and through them to the drug trade. Of ten candidates suspected of paramilitary links, six were elected. But others have less visible loyalties. That could yet turn into the most embarrassing aspect of an otherwise satisfying day for Mr Uribe.

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Argentina and Uruguay

Paper chase

Mar 16th 2006 | GUALEGUAYCHÚ
From The Economist print edition

No easy end to a border battle

THEY are supposed to be the closest of allies. Not only are Argentina and Uruguay partners in the Mercosur trade group, but their governments form part of what has been touted as a seamless web of left-of-centre governments committed to the integration of South America. Yet the two are locked in their most serious dispute for half a century.

At issue is the building of two large cellulose factories, one by Metsa-Botnia of Finland and the other by ENCE of Spain. Both are located on the Uruguayan bank of the eponymous river which forms the border. For six weeks, demonstrators in Gualeguaychú, across the river in Argentina, have blocked a busy binational bridge in an effort to halt construction of the paper factories, which involve a total investment of $1.7 billion. Opponents claim that the giant factories will pollute the river and cause acid rain, hurting local tourism, farming and fishing.

Both governments have whipped up national feeling over the dispute. But on March 11th at an impromptu meeting in Chile, Tabaré Vázquez, Uruguay's president, seemed to strike a deal with his Argentine counterpart, Néstor Kirchner. Mr Vázquez had previously vowed not to negotiate unless the bridge was re-opened. But in a joint statement, he agreed to call for a 90-day halt to the building of the plants and a fresh environmental study in return for a pledge from Mr Kirchner to ensure free passage across the bridge.

But can either of them deliver the bargain? Back home, Mr Vázquez was accused of selling out. Polls suggest that more than two-thirds of Uruguayans want the plants built. Many see the protests as an assault on their sovereignty.

The protesters in Argentina were not impressed either. The next day some 1,200 gathered to block the six kilometre-long (four mile) bridge. Blocking roads is illegal in Argentina, but the few police there looked idly on. The protesters want an end to building, a ban on the transport of materials for the plants through Argentina (which would violate Mercosur rules) and a new environmental study by local universities. Studies which show that effluent from the plants would be within international norms were biased, they claim.

The protesters cannot stop the plants, but they can continue to hurt Uruguay's small economy. The roadblocks prompted some 50,000 Argentine holiday-makers to forsake Uruguayan beaches this southern-hemisphere summer —and caused economic losses of up to $300m.

Both sides are calling in their lawyers. Argentina's Congress has voted to file a claim at the International Court of Justice, arguing that Uruguay breached a treaty obligation to consult before taking actions that would affect the river. Mr Vázquez said that unless the protests stopped, his government will file suit for compensation in an Argentine court. Uruguay is also considering taking its case to the Organisation of American States and to Mercosur's dispute-settlement tribunal.

One lesson is that South Americans are increasingly concerned about the environment. Uruguay's previous government should have ordered an independent environmental study at the outset. But some of the protesters seem more troubled by capitalism than environmental damage. Another lesson from the way that the dispute has been allowed to drag on—and especially the way that Argentina's government has failed to keep the bridge open—is that South American integration remains a much-hyped mirage.

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Brazil

A nation of non-readers

Mar 16th 2006 | SÃO PAULO
From The Economist print edition

A strange and costly disregard for books

MANY Brazilians cannot read. In 2000, a quarter of those aged 15 and older were functionally illiterate. Many simply do not want to. Only one literate adult in three reads books. The average Brazilian reads 1.8 non-academic books a year—less than half the figure in Europe and the United States. In a recent survey of reading habits, Brazilians came 27th out of 30 countries, spending 5.2 hours a week with a book. Argentines, their neighbours, ranked 18th.

In rare accord, government, businesses and NGOs are all striving in different ways to change this. On March 13th the government launched a National Plan for Books and Reading. This seeks to boost reading, by founding libraries and financing publishers among other things. The Brazil Reader Institute, an NGO, brings books to people: it has installed lending libraries in two São Paulo metro stations, and is planning one in a Carnival samba school. It is starting to be common to see characters in television soap operas shown reading. Cynics note that Globo, the biggest broadcaster, is also a big publisher of books, newspapers and magazines.

One discouragement to reading is that books are expensive. At São Paulo's book fair this week, “O Código Da Vinci” was on sale for 32 reais—more than a tenth of the official minimum monthly wage. Most other books have small print-runs, pushing up their price.

But Brazilians' indifference to books has deeper roots. Centuries of slavery meant the country's leaders long neglected education. Primary schooling became universal only in the 1990s. Radio was ubiquitous by the 1930s; libraries and bookshops have still not caught up. “The electronic experience came before the written experience,” says Marino Lobello, of the Brazilian Chamber of Books, an industry body.

All this means that Brazil's book market has the biggest growth potential in the western world, reckons Mr Lobello. That notion has attracted foreign publishers, such as Spain's Prisa-Santillana, which bought a local house last year. American evangelical publishers are eyeing the market for religious books, which outsell fiction in Brazil.

But reading is a difficult habit to form. Brazilians bought fewer books in 2004—289m, including textbooks distributed by the government—than they did in 1991. Last year the director of Brazil's national library quit after a controversial tenure. He complained that he had half the librarians he needed and termites had eaten much of the collection. Along with crime and high interest rates, that ought to be a cause for national shame.

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Pakistan

The other Taliban

Mar 16th 2006 | BANNU
From The Economist print edition

AFP

The government fights to tame Islamist militants in northern Pakistan

Get article background

SOLDIERS block the road from Bannu, in Pakistan's North West Frontier Province (NFWP), to Miran Shah, the capital of the North Waziristan tribal area and epicentre of an ugly war. A lorry rolls the other way, packed with refugees from fighting between the army and fundamentalist local tribesmen. “It's chaos,” says a bearded fugitive. “The army is on the streets but everyone knows it's not in control.”

Two years of conflict in Pakistan's federally administered tribal areas, which are divided into seven agencies arrayed along the border with Afghanistan, suggest he could be right. The latest, especially serious surge began on March 1st, when the army attacked a village it described as an “al-Qaeda training camp” near Miran Shah. It claimed that 45 Islamist militants were killed in the attack, including some Chechens. Refugees said only 15 local tribesmen were killed.

In response, their Talibanised brothers and cousins raided Miran Shah, grabbing the telephone exchange and other government buildings, and bombarding an army base with rockets and mortars. The government's political agent for North Waziristan narrowly escaped death in an ambush. Several thousand townspeople fled 30 miles (50km) east to Bannu. Even there they seem terrified, telling tales of sandbagged army outposts, a market square razed to rubble and fighting between helicopter gunships and grenade-toting Talibs. No one knows how many people have been killed. The army says 200, mostly “militants”. The fugitives say many civilians were among them: “That's why the media is not being allowed in.”

For the first half-century of the country's existence, Pakistan's governments paid little attention to the tribal areas. Like their British forebears, they preferred them wild and woolly, deprived of basic rights and services—though they occasionally found them useful for launching insurgencies, first against the Soviet army and then the Mujahideen who succeeded it, inside Afghanistan. That changed when America invaded Afghanistan in 2001, and thousands of al-Qaeda and Taliban fighters, Pakistanis and Afghans, fled to the tribal areas. Then Pakistan sent its army in.

Policed by 80,000 soldiers and paramilitaries, most of the tribal areas are now under unprecedented central control. To assist its operations, the army has bulldozed many miles of roads. Unlike the British with their punitive sorties, it says it is there to stay. To please the locals, it claims to have built clinics and schools, though tight restrictions on visiting journalists make such claims hard to verify. But in North and South Waziristan, the army has encountered fierce resistance from local tribesmen, assisted perhaps by a surviving handful of foreign jihadists. Drawn from the Wazir tribes, most of the fighters are religious students loyal to two fire-breathing clerics, Abdul Khaliq and Sadiq Noor. They sometimes call themselves the “Pakistan Taliban”.

In early 2004, fighting in South Waziristan caused several hundred deaths on both sides—and failed to deliver the "high-value" al-Qaeda target that Pervez Musharraf, Pakistan's president, had promised. In the latter part of last year, North Waziristan suffered 25 bomb blasts and the deaths of at least 35 soldiers in fighting. In another time-honoured tradition, the government then tried bribing the tribesmen to keep quiet—apparently without success.

Many in Pakistan now wonder whether the government's military campaign is making the tribal areas more radical, not less. The conflict has weakened both traditional leaders and their civil-servant handlers. The area is instead seeing a face-off between the army and the clerics. With insurgent violence worsening on both sides of the border, the consequences could be grim. In NWFP, a Taliban promotional video is widely available. It shows what happens to "miscreants" under an "Islamic Justice System": a severed head is waved before a crowd; a bloodied corpse hangs from a tree, eyes gouged out, a wad of money stuffed in its mouth; a tangle of bodies is hauled through the streets. "The Taliban have done the job the enlightened moderates have refused to do," says the voiceover. It was filmed in Miran Shah in December 2005.

Pakistan has often been accused of failing to prevent Taliban incursions into Afghanistan. It has arrested several al-Qaeda chiefs in recent years—though none in the tribal areas. It has also suffered Taliban leaders to preach and recruit in its northern town of Quetta. Last month, Afghanistan's president, Hamid Karzai, said that a recent wave of suicide bombers in his country came from Pakistan. The furore was embarrassing for Mr Musharraf, as it coincided with a visit from President George Bush, to see whether his Pakistani "buddy" remained as "committed as he has been in the past" to fighting terrorism.

Mr Bush pronounced himself satisfied; Mr Musharraf has shown great courage in the fight. But it would not be surprising if some of his lieutenants were less eager to quell Afghanistan's insurgency. They remain dismayed at their loss of influence over a country which, under Taliban rule, they controlled. Worse, India is on excellent terms with Mr Karzai. But with a rising threat of Taliban politics spreading elsewhere in Pakistan, the tribal areas are no place for half-hearted, or ham-fisted, policy. According to reports in Pakistan this week, the Taliban recently opened an office in South Waziristan's capital of Wana, "to help restore law and order."

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Indian justice

Battling impunity

Mar 16th 2006 | DELHI
From The Economist print edition

Too many Indians are getting away with murder

The Times of India

Jessica Lal: a model victim

TWO murder cases that have, for several years, grabbed headlines in India took new twists on March 13th. Both cases stirred outrage that raises hope for improving a judicial system that has often been perverted by those with money and influence—as they had seemed to demonstrate.

In Delhi, the police appealed against the acquittal last month of those accused of killing Jessica Lal, a model shot dead in 1999, apparently for refusing to serve someone a drink at a party in a posh restaurant. There were many witnesses to the crime, and it should have been an open-and-shut case. But the man accused of pulling the trigger is the son of a former government minister. His acquittal provoked angry protests against the apparent impunity enjoyed by the well-connected rich.

In Mumbai, on the same day, Zaheera Sheikh, a key witness in the trial of 17 people accused of incinerating 14 Muslims in a bakery in Gujarat in 2002, appeared in court. That murder case had come to symbolise the failure of Gujarat's government to bring anyone to justice for a pogrom in which perhaps 2,000 Muslims perished. Only after four years, the heroic persistence of activists and the intervention of the Supreme Court, was some justice done last month, when nine people were sentenced to life imprisonment for the murders by a court in Mumbai. All had been acquitted in an earlier trial in Gujarat in 2003 after most of the 43 witnesses, including Miss Sheikh, withdrew their evidence. The Gujarat government, widely seen as having connived in the bloodshed, was promptly accused of having allowed the witnesses to be intimidated, and a retrial was ordered in Mumbai.

That the convictions were eventually secured has been celebrated. But they came at a time when public confidence in the criminal-justice system was at a low ebb because of the Jessica Lal case. In that case, too, prosecution witnesses turned “hostile”. As so often, those with money or muscle seemed to have diverted the course of justice.

Now, Manmohan Singh, the prime minister, has asked whether the courts need stiffening with reforms, “so that the justice system is seen to deliver justice.” Miss Sheikh's experience already suggests the Supreme Court is determined to get tough with delinquent witnesses. Earlier this month, it sentenced her to a year in prison. Her court appearance this week was to beg, in tears, to be allowed not to serve it in Gujarat, where, she said, she feared she would be killed.

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China

Commuting poverty

Mar 16th 2006 | BEIJING
From The Economist print edition

Poor peasants surround Beijing

"EUROPEAN cities with an African countryside" is how a report published in China this month describes the gap between booming Beijing, the nearby port-city of Tianjin and a "belt of poverty" around them. It is an exaggeration. No Chinese city has western European levels of development, and African-style deprivation is rarely seen in China. Yet the gap is huge and growing. For increasingly vocal critics of China's imbalanced development, it is a particularly alarming example.

In recent years China's leaders have themselves stressed the need to narrow regional imbalances. This was a major theme of the annual ten-day session of China's parliament, the National People's Congress, which ended on March 14th. The 3,000 Communist Party-picked delegates approved a budget that promises more cash for farmers and a new five-year economic plan to create a "virtuous synergy" between the wealthy seaboard, central China and the poor western regions.

Yet criticism of these disparities has also become a way for some to air more general grievances about China's embrace of capitalism. The government recently shelved plans to submit a new property law to the congress after a chorus of opposition, led by a Peking University academic, Gong Xiantian. He argued that the draft, which protected property rights, was un-Marxist and unconstitutional.

Though state-controlled, China's media are adept at pinpointing issues that embarrass officials. One example is the comparison of Beijing, Tianjin and their surrounds which appeared in an annual report on regional economies in China by the Beijing Academy of Social Sciences. One Chinese web portal devoted a special page to reports on the poverty belt, with a headline "so close and yet so far". A commentary in the *Farmers Daily*, published by the ministry of agriculture, said the poverty of areas of Hebei Province around Beijing and Tianjin was "astonishing".

The academy's report echoed the findings of an Asian Development Bank study published last year. It said the belt consisted of 32 counties, mostly to the north and north-west of Beijing and Tianjin, with an impoverished population of 2.7m living in nearly 3,800 villages. Poverty is defined as an annual income of less than 825 yuan ($102). The average urban income in Beijing last year was 17,653 yuan a year. Chen Mengping, one of the report's editors, says many of these villages are in mountainous places whose economies have been hit by a bid to improve the purity of Beijing's water, which they supply. This has involved closing factories, and planting trees instead of crops.

According to the ADB study, these areas represent extremes of poverty in a province that has failed to cash in on the growth of Beijing and Tianjin. Hebei has more officially designated "poor counties" and probably more people living in poverty than any other eastern province, it says (though officials say their numbers have been falling). Hebei's failure to develop more rapidly is in marked contrast with the hinterlands of Shanghai and Shenzhen. Wealth has radiated from these thriving port cities as manufacturing industries have mushroomed around them. Hebei has a bigger state-owned sector than the areas around Shanghai and Shenzhen—no recipe for fast development—and relatively little foreign investment.

Politics is partly to blame. The cities of Beijing and Tianjin enjoy provincial status and the advantages of being the capital city and a major port. Hebei has received fewer favours. Central government assistance in recent years has focused on China's west and the north-eastern rust belt. Some Hebei delegates at the National People' s Congress openly grumbled that their province had not been rewarded for sacrifices it had made for the two cities: providing them with water, and curbing industrial development to keep it clean.

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South Korea

Jobs tomorrow

Mar 16th 2006 | SEOUL
From The Economist print edition

Gambling on a free-trade deal

TO LOSE a prime minister over a game of golf might seem a little careless. Yet on March 14th, President Roh Moo-hyun accepted the resignation of Lee Hae-chan, after mounting criticism of a round of golf he played on March 1st. The day was a national holiday, but why, people asked, was Mr Lee on the links schmoozing with businessmen rather than at his desk dealing with a national railway strike? This seemingly trivial issue resonated in a country that is increasingly obsessed with supposed polarisations in society: between those in regular work and those with only part-time jobs, between the haves and have-nots, between rich family-dominated *chaebol*, or conglomerates, and smaller struggling businesses, and between prosperous Seoul and the neglected regions. The inequalities that come with them have helped make Mr Roh and his ruling Uri Party unpopular, and with countrywide local elections due on May 31st, Mr Lee looks like the sacrificial lamb.

Economic worries might seem odd in a country that is growing at an annual 5% or so, rebounding from a sharp slump in domestic demand in 2003-04 caused by the bursting of a credit-card bubble. Yet the headline figures mask wrenching change, much of it driven by China. For South Korea's biggest businesses, led by Samsung Electronics, a maker of chips and consumer goodies that is Asia's biggest manufacturer after Toyota, China is a boon: it is both a low-cost manufacturing platform and a fast-growing market for high-tech Korean products. But for smaller, lower-tech Korean companies, Chinese competition is painful, with Chinese factories outcompeting Korean light manufacturers.

By one account, two-fifths of Korean small and medium-sized enterprises make no operating profits, among them many “zombie” firms kept alive with government credit guarantees. Meanwhile, the government says, income gaps are widening: workers at smaller enterprises earn only three-fifths of what their counterparts earn at big corporations, while irregular workers earn much less than that. With grim prospects ahead for many smaller firms, there is a pressing need to find new sources of jobs.

That is why President Roh, despite his populist instincts, has recently gambled what remains of his political capital on securing a wide-ranging free-trade agreement (FTA) with America. Such a deal would be a coup for South Korea, for whom America is the third biggest trading partner, behind China and Japan. It would also be America's biggest FTA since the North American Free-Trade Agreement (NAFTA) in 1994. But it will meet stiff resistance from Korea's protected sectors, including farmers, industrial groupings and trade unions, and the film industry.

Estimates of the impact of an FTA—including the creation of up to 100,000 jobs in Korea, and a 2% increase in GDP—have to be taken with a pinch of salt: for a start, it is not clear what might be agreed. Then again, some policymakers think an FTA would also accelerate reforms to recalcitrant parts of the economy. The service economy is still overly protected and, hence, unproductive. Too few state enterprises have been privatised. Too few government contracts are put out to tender. And capital markets are undeveloped, while the government still controls too much of the banking system. The Asian financial crisis of 1997-98 had the powerful effect of forcing the *chaebol* to restructure, and opening up some of the banking system to foreign capital. An FTA, says a top official, might provide the impulse for an overdue second round of such reforms.

There are also strategic calculations in seeking an FTA. Because of differences over how to deal with North Korea, South Korea's alliance with America is a cranky affair that a trade deal might strengthen. Closer ties with America would provide a counterweight to China's growing economic influence. But can an agreement be forged? Negotiations will begin after the local elections, in which Mr Roh's party is not expected to do well. Then domestic opposition must be overcome, and a deal struck, before next spring, to give President George Bush time to sell the idea to Congress before his “fast-track” negotiating authority over trade bills expires in June 2007. It looks a tricky course, with distant fairways and lightning-quick greens.

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South-East Asia

Well overdue

Mar 16th 2006 | BANGKOK
From The Economist print edition

More drilling, less subsidising

SINCE last year, Indonesia has enjoyed the unwelcome distinction of being the only OPEC member that is an overall importer of oil. While gas production ensures that it remains a net energy exporter, the country's oil production is now a lamentable third below its peak in the late 1970s. Like many of its South-East Asian neighbours, Indonesia has plenty of under-explored oil and gas prospects, onshore and offshore, and desperately needs to encourage oil firms to get drilling. Among the many factors that discourage them—corruption, political instability and so on—the most prominent has been a five-year deadlock over the big Cepu oilfield on Java island. Finally, this week, Cepu's feuding main partners, ExxonMobil and Indonesia's state oil firm, Pertamina, signed a face-saving deal in which they will nominally share the management of the project, though in practice Exxon will be in charge, as it had demanded.

When Indonesia's President Susilo Bambang Yudhoyono took office in 2004, he pledged to resolve the Cepu row within 100 days. Though he failed to do so, he now deserves credit for defying the strong nationalist lobby that wanted Cepu to be run by Pertamina. The deadlock began to ease earlier this month, when the president publicly excoriated the state firm as “slow, half-baked and ineffective” and, shortly after, fired most of its bosses.

Such is Cepu's potential that, if there are no further hitches, the project could boost Indonesia' s oil output by a fifth in two years. And it could achieve more than this: the victory for Exxon may encourage it and other oil multinationals to invest more in oil and gas, not just in Indonesia but throughout South-East Asia.

Some countries in the region, notably Malaysia and Vietnam, have raised their output in recent years—even tiny Timor-Leste is starting to see revenues from its gas fields. Others are only now taking action to reverse slumping production. Besides Indonesia, one is Papua New Guinea, which said this month it would soon launch its first round of bidding for exploration licences in six years, and approve a proposed pipeline to export gas to Australia.

Myanmar has substantial reserves but multinationals are reluctant to deal with the military junta that runs the place. State-run firms from Asia's thirsty giants, India and China, have no such qualms. Last week, for example, India's state gas firm, GAIL, signed a deal to pipe gas from Myanmar along a new pipeline.

Until recently another big deterrent to energy investment in South-East Asia was the widespread use of price controls and fuel subsidies. Besides driving away the multinationals, these deprived the region's state energy firms of revenues they needed to invest in exploration. However, the past year or so has seen drastic subsidy cuts in some countries, most notably Indonesia, which raised fuel prices by 127% last year; and Malaysia, where petrol prices have risen 40% and diesel prices have doubled since October. Mr Yudhoyono and Malaysia's prime minister, Abdullah Badawi, have stood firm despite street protests against the price hikes.

South-East Asia's subsidy-slashing is doing it plenty of good and little harm, says David Fyfe of the International Energy Agency. Governments' finances have improved greatly but the resulting sharp rise in fuel costs has not plunged the region into recession, even though demand for oil-based fuels has slumped. One reason is that motorists are switching to cheaper (and greener) biofuels. Sales of “gasohol”—petrol mixed with alcohol made from sugar cane—are soaring in Thailand. This week it announced plans to put half a million gas-powered vehicles on its roads by 2011, to reduce oil dependence and provide a market for the off-shore gas fields it is developing. With such policies, the region should be much less vulnerable to spikes in energy prices.

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Afghanistan

A fragile corner of order

Mar 16th 2006 | HERAT
From The Economist print edition

Mob violence in Herat brings Ismael Khan to mind

EXCELLENT roads, lined with elegant pine-trees, make Herat an unusual Afghan city. So does the smart business park by the airport, its factories making chemicals, paint and tasty biscuits.

This prosperity, many Heratis say, is the legacy of a former warlord-ruler of Afghanistan's western capital, Ismael Khan, who was winkled from power 18 months ago, and is now a minister in Kabul. Mr Khan, aided by his sponsors in nearby Iran, invested millions of dollars of customs revenues in the city. Alas, the government couldn't help noting that this cash was the main—indeed, almost the only—revenue stream for the entire country. As another reason to shift the white-bearded “Emir”, many cited his repressive rule. Very well, Heratis replied, but could the government maintain the order to which they were accustomed?

Mr Khan's successor as governor resigned within a year, in part due to discontent over loss of services which, shorn of customs-revenues, the city could no longer afford. Last month, his replacement, Sayed Hussein Anwari, of the Shia Hazara minority, offered to resign after sectarian rioting left 8 dead and 200 injured. The riot was sparked by a rumour that Sunni banners had been desecrated by Shia youths near the city's shimmering Blue Mosque. It was quickly attended by 300 armed Sunnis astride motorbikes, flourishing banners. They led a mob of several thousand to torch three Shia mosques and a market.

Followers of Mr Khan, a Sunni Tajik, are said to have stirred the violence. Fomenting chaos to discredit a rival is a favourite trick in Afghan politics; after Mr Khan was sacked, his supporters burned down UN offices. But again, Heratis ask, if Mr Khan was to blame, can the government control him?

Perhaps not: Afghanistan's new army has made strides in the past year, but its few decent battalions are fighting the Taliban in southern Afghanistan. As for the few score Italian and Spanish peacekeepers in Herat, they are among the most timorous members of a too-feeble NATO force—though the recent deployment of Canadian and British troops to southern Afghanistan promises improvement there. More worrying, the violence was more ethnic than sectarian: it was aimed not at the city's Shia Persians, a well-established community, but at a poor horde of Shia Hazaras, most of whom arrived recently from refugee camps in Iran. During the riot, Sunni bikers chanted: “Death to Hazaras!”

This was perhaps a response to their new strength. Traditionally scorned, and massacred by the Taliban, the Hazaras were well-organised during two recent elections, winning unprecedented power for their champions. Yet the violence had worrying echoes of the ethnic slaughter that was a feature of Afghanistan's long civil war, and has been perhaps surprisingly absent from the country's current precarious politics. To ease tensions in Herat, the government has appointed a commission to investigate the riots. It is headed by Mr Khan.

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Iraq

More pain, no gain

Mar 16th 2006
From The Economist print edition

Reuters

Three months after elections, parliament is meeting against a backdrop of increasing sectarian violence

FOR much of the past two years Iraq has seemed poised to dissolve into hostile ethnic and sectarian enclaves. But this week—on the third anniversary, as it happens, of the American-led invasion—the body politic seemed even more fragile than usual. On March 12th a series of bombs and mortar barrages ripped across the Shia slum of Sadr City, killing more than 50 people—a strike that seemed designed to stoke the anger that was still simmering after the demolition of the Shia Askariya shrine three weeks ago, and hasten the descent into civil war.

The Sadr City suburb is the Baghdad base of the Mahdi Army, loyal to Muqtada al-Sadr, a radical Shia cleric. His men were probably responsible for many of the reprisal attacks launched against Sunni mosques after the bombing of the Askariya shrine in Samarra—where American and Iraqi forces launched a fierce attack on insurgents on March 16th. Yet residents of Sadr City had considered themselves to be living in quite a safe zone. In part, this was because of the ubiquitous black-clad militiamen who stop any strange car that ventures into the area. It was also because of Mr Sadr himself. Whatever his followers' inclinations, he has been careful to express solidarity with Sunnis against the American and British occupiers.

That sense of safety has been shattered since rumours spread through the slum that residents of surrounding middle-class Sunni neighbourhoods had been gunning down Sadr City residents on their way to work. Some Sadrists say that it is now high time to end the menace posed by Sunni extremists once and for all. If the religious leadership would give the word, they say, Baghdad could be a Shia city “in minutes”.

Mr Sadr has tried to calm down his followers as he always does, by diverting blame towards the Americans. But in a televised address he did utter one ominous reference to the Americans preventing his militias from striking at the “*takfiris*”—that is, at the Sunni ultra-puritans whom Shias blame for most attacks. And since some of Mr Sadr's followers do not make much distinction between *takfiris* and mainstream Sunnis, this set the scene for a new round of revenge killings.

Grisly evidence of these killings has been surfacing all week. On March 15th, police said that during the preceding 24 hours they had discovered the bodies of 87 people killed execution-style, although some of them might have been murdered before the latest blasts. The victims were discovered in both Shia and Sunni districts of Baghdad. Some had been tortured. The discovery of these bodies, so soon after the blows against the protected Shia neighbourhood and the Askariya shrine, can be expected to feed the cycle of reprisals and counter-reprisals in the days ahead.

Meanwhile, an increasingly personalised quarrel between the Shia-led United Iraqi Alliance on the one hand and the Kurdish, Sunni Arab and secular parties on the other threatens to paralyse politics altogether. Jalal Talabani, the Kurdish leader, has led a campaign to force the Alliance to rescind its decision to re-nominate Ibrahim al-

Jaafari as prime minister. Mr Talabani says that during his year in power Mr Jaafari consistently failed to implement Kurdish-Shia agreements on resettling refugees and otherwise undoing Saddam-era ethnic cleansing in the disputed city of Kirkuk. The dispute has now grown into more than just a matter of policy differences. The Kurds say that they simply have no faith that Mr Jaafari will act on his commitments. The Sunnis have their own complaints, mostly related to the government's failure to protect them from abuses by the security forces.

The dispute over Mr Jaafari's leadership has poisoned Iraqi politics to the extent that, until a week ago, nearly three months after December's elections, the two sides could not even agree to convene the newly elected parliament by the constitutional deadline of March 15th. The constitution is ambiguous about how binding the transitional deadlines are: failure to abide by them does not necessarily mean a crisis. But ignoring the date completely would not have boded well for the prospects of forming a new government, let alone one that might entice the formerly excluded Sunni parties into government. Only after the personal intervention of Zalmay Khalilzad, America's energetic ambassador, did the quarrelling groups at last agree to meet on March 16th. Even so, all the outstanding issues remain. Mr Khalilzad has spoken of herding Iraqi leaders into a conference, possibly outside Iraq, to “work day and night” to reach a consensus on how to proceed.

Nonetheless, Iraq continues to generate the odd ray of hope. One such is a recent agreement intended to deal with the problem of death squads. Sunnis have long accused the Shia-controlled interior-ministry forces, both police and commandos, of abducting and killing Sunnis.

On March 12th the defence and interior ministries announced an agreement designed to address these concerns. Under this the army, which has a less brutal reputation, will accompany interior-ministry forces on all their raids. The interior ministry is also investigating an incident in which an American patrol reportedly caught a death squad red-handed on its way to kill a prisoner. Occasional accords such as this, in addition to the periodic bursts of rhetoric extolling the virtues of national reconciliation that follow outrages such as the Sadr City bombings, suggest that none of Iraq's main factions is ready to march over the edge just yet. Nor, however, do they show much readiness for compromise.

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The war revisited

Inside the box

Mar 16th 2006
From The Economist print edition

New insights on what Saddam Hussein thought he was doing

WHEN the American army overran Iraq three years ago, it was famously short of military policemen, Arabic-speakers and good ideas for putting the broken country back together again. But the army's historians have since then made the most of a unique opportunity: the chance to question Saddam Hussein's top generals and advisers about what happened inside the regime before and during the war. The findings are to be published next month in a book-length report. But its authors have published a preview on the website of the New York-based journal, *Foreign Affairs*. It contains some riveting findings.

One of these, based mainly on the testimony of Tariq Aziz, Saddam's deputy prime minister, is that right up to the last moment the dictator did not expect America to attack, because of the faith he had in pressure from Russia and France in the UN Security Council. Mr Aziz told his interrogators that the two countries had received millions of dollars of trade and service contracts with Iraq, "with the implied understanding that their political posture ...would be pro-Iraqi". Even after the invasion started, Saddam did not expect the Americans to fight all the way to Baghdad —a delusion that prevented him from torching his oilfields or opening the dams to flood southern Iraq. Fixated at first on internal threats, instead of the advancing American army, Saddam later came to believe that Iraq was winning, and continued to think so until American tanks reached Baghdad. His own generals were far too scared of him to risk breaking the bad news.

As for those weapons of mass destruction (WMD), it seems that some senior members of the ruling circle never stopped believing, even after the war, that Iraq had these, even though Saddam himself knew otherwise. When he revealed the truth to members of his Revolutionary Command Council not long before the war, their morale slumped. But he refused a suggestion to make the truth clear to the wider world on the ground that his presumed possession of WMD was a form of deterrence, and that coming clean might encourage an attack by Israel. Instead, of course, the dictator's non-existent WMD became one reason America gave for its decision to topple him. This was, without doubt, the mother of all ironies.

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Israel

You're nicked—again

Mar 16th 2006 | JERUSALEM
From The Economist print edition

The Jericho prison siege will help Kadima in the forthcoming Israeli election

A FEW weeks ago, it was dangerous to be Danish in Palestine; now it is the Brits and Americans who are the unflavour-of-the-month. On March 14th, the three British monitors supervising the detention of six of Israel's top public enemies at a Palestinian Authority (PA) jail in Jericho finished their watch and left, but no replacement team showed up. Israeli troops, watching nearby, correctly deduced that Britain and the United States were keeping a promise made on March 8th to both the PA and the Israelis that they were going to withdraw the monitors. The Israelis attacked, and after a nine-hour siege that claimed remarkably few casualties (two dead prison guards), captured the prisoners alive. In response, furious Palestinians set fire to the British Council offices in Gaza, and several foreigners were kidnapped in Gaza and the West Bank, only to be released unharmed soon afterwards.

The monitors were there as part of a deal struck in 2002, when Israel agreed to lift its siege of Yasser Arafat's compound in Ramallah, where the six men were hiding out, in return for their handover. Among them was Ahmad Saadat, a leader of the Popular Front for the Liberation of Palestine (PFLP), who was believed to have planned the assassination of Rehavam Zeevi, a right-wing Israeli cabinet minister. Israel agreed to let the men stay in a PA jail, so long as there was foreign supervision. But the supervisors had never been happy with the poor security provisions for the unarmed monitors and the lax conditions for the prisoners, who were, for instance, allowed to use mobile phones. Israel suspects that Mr Saadat used one to plan a suicide bombing from his cell.

After Mr Saadat won a seat in the Palestinian parliament last January on the PFLP list, the organisation began calling on the Palestinian president, Mahmoud Abbas, to release him. Hamas, which won a majority in the legislature, said that it would let him go once it formed a government. That seems to have tipped the balance for the British and the Americans: rather than wait for the prisoners to be set free, and risk having their monitors caught in an Israeli attack, they pulled out pre-emptively. Israel, they say, knew nothing about it before March 8th, though Israel's *Haaretz* newspaper reports that the Israeli plans had been laid weeks before. (The army refused to comment.)

Opening the way to an Israeli siege would have been a sensitive matter at the best of times. But with foreign donors engaged in backroom debates about the extent to which they should cut funding for, and contact with, a Hamas-run PA, Palestinians inevitably wonder whether the pullout of the monitors was just the beginning of a process of abandonment, or even of a strategy of deliberate destabilisation of the PA, which some American and Israeli officials are known to favour. Ironically, if so, the most destabilised might be not Hamas, but the moderate Mr Abbas.

Will other projects in which foreign officials work directly with the PA be axed

too, such as the EU-supervised Rafah border crossing between Gaza and Egypt, or the training provided for the authority's security forces? The donors are still undecided, waiting for Hamas to form its government. Hamas, meanwhile, is still trying to clinch a deal with other factions in an attempt to set up a possible government of national unity.

For Israel's ruling Kadima party, the timing of the Jericho prison siege, however coincidental, could not have been better. It had been slipping in the polls; its leader, Ehud Olmert, lacking the public's trust in his militaristic predecessor, Ariel Sharon, had found that he could not afford to affect Mr Sharon's studied vagueness about the future. Last weekend he finally outlined both the borders he thought Israel should have, and the length of time—a mere four years—that it should take to get to them, most likely unilaterally, thus giving up some of its West Bank settlements.

That clarity of purpose has boosted Kadima's ratings, according to a poll by state television just before the prison siege. And thanks to the success of the siege, Mr Olmert's hard-man credentials are now stronger too. Few now doubt that a coalition led by Kadima, with Labour as the second biggest party, will be forming Israel's next government.

AP

Another fruitful cultural exchange

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Ethiopia

Injustice will be done

Mar 16th 2006 | ADDIS ABABA
From The Economist print edition

An ill-judged treason trial

AP

Mr Meles is not listening

THE trial of 129 opposition politicians, journalists and other dissenters starts later this month in Addis Ababa. The accused face a range of charges, including treason and planning “genocide”. Among them are the leaders of the Coalition for Unity and Democracy (CUD), an umbrella organisation of several parties, mainly representing one of the largest ethnic groups, the Amhara. The prisoners include the coalition's elected mayor of Addis Ababa, Berhanu Nega, and 13 of the country's more independent journalists. But putting opponents and critics in the dock on trumped up charges will not endear the government of Meles Zenawi to the western governments that have given Ethiopia hundreds of millions of dollars in aid.

The accused, held without bail since November, were among thousands of people arrested in a general crackdown after the violent anti-government protests that followed Mr Meles's disputed election victory last May. Aware of the attention the trials will receive, the prime minister has been trying to minimise the damage to his reputation. Foreign surgeons were recently allowed to help operate on an elderly CUD leader, Hailu Shawel, whose eyesight was threatened by an infection. Mr Meles also said that he does not favour the death penalty, should the accused be found guilty.

Capital punishment is still possible, though long prison sentences are more likely. Mr Meles may offer clemency to some of the accused, but will demand political deference in return. Human Rights Watch, a New York-based lobby group, argues that the government is engaged in the violent suppression of any form of protest, punishing suspected supporters of the opposition. Having won an unprecedented number of seats in the election, and carrying Addis Ababa, the capital, the opposition poses a real threat to the regime.

The government's repressive tactics have proved embarrassing to outsiders. Mr Meles has won international plaudits for reducing poverty and for managing the economy. European governments regard his regime as one of Africa's least corrupt, and Mr Meles has become an aid darling. Entrepreneurship is at last starting to flourish in Ethiopia. For example, the country has lately managed to win some of the lucrative flower-exporting business away from neighbouring Kenya.

However, the trial is a reminder—if one were needed—of the true nature of the regime and of its authoritarian roots. Human-rights groups estimate that tens of thousands of political prisoners, mostly young, are being held in camps around the country. According to some reports, several prisoners from the biggest ethnic group, the Oromo, have been executed on political grounds, though the government denies this.

All this raises the spectre of sectarian violence. Ethnic divisions have always played a role in Ethiopian politics, but not necessarily an explosive one. It is hard, for instance, to find any educated Ethiopian, even in the government, who really believes opposition leaders were plotting “genocide” against the ethnic Tigrayans, the group from which Mr Meles comes. Amnesty International, another human-rights monitor, considers those standing trial in Addis Ababa to be non-violent “prisoners of conscience”.

The response of the African Union, based in Addis Ababa, has been limp and that of the donor community not much better. At a recent conference, Britain's prime minister, Tony Blair, found himself in the same room as Mr Meles: “There was, perhaps, if I can say this without being undiplomatic,” said Mr Blair of the Ethiopian situation, “an overreaction.” Mr Meles, beaming at being given such a gentle rebuke, said that if there had been mistakes they would be corrected. Mr Blair then assured everyone that Britain, and the EU, would continue to support Ethiopia.

In fact, the very stability of Ethiopia could be at stake. Mr Meles has embittered the class of professional Amharas that Ethiopia relies on to get things done. And, with high unemployment, millions of urban poor, particularly in the

capital, have little to lose. They were mostly the ones gunned down by the trigger-happy police in last year's street protests. Demonising and imprisoning the politicians they voted for in the election might mean more riots, and more deaths.

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Benin

Small country, big example

Mar 16th 2006 | PORTO-NOVO
From The Economist print edition

Still an unusual success for democracy—fingers crossed

ON March 5th, Benin went to the polls for the fourth presidential election since multi-party democracy was introduced in 1990: no mean achievement in west Africa. Even more impressive was the fact that President Mathieu Kérékou did not stand for re-election, nor did his great rival, Nicéphore Soglo, who was president from 1991-96. Both have passed the constitution's age limit of 70. That respect for the constitution goes admirably against Africa's trend for heads of state to change the law to stay even longer in office.

Benin has fewer than 8m people. It is one of the poorest countries on earth. And yet, in Africa, it is also a democratic exemplar. Many of Africa's former French colonies brought in multi-party democracy only when forced to by the French—in return for more aid—in June 1990. Having abandoned Marxism, Mr Kérékou, Benin's president and military ruler, not only legalised opposition parties several months before then, but also stood down after his electoral defeat to Mr Soglo in 1991. So Benin became the first African country where an incumbent ran for re-election, lost and graciously bowed out. Since then, democracy has implanted itself strongly in the minds of Benin's citizens. “Our history is so terrible, with coups and years of problems, that now we all care about democracy very deeply,” says one of them.

Still, the election did not go smoothly. Electoral materials, including voting forms, seals for ballot boxes and even the urns themselves turned up late or not at all, causing most polling stations to open hours late. Although they all then stayed open for the regulation nine hours, election officials were often absent and many had not been properly trained. Mr Kérékou blamed the independent electoral commission, hinting that the errors were not accidental. All the same, turnout was high. Provisional results suggest that Yayi Boni, a banker, is ahead and will be faced in a second round by Adrien Houngbédji, a former prime minister and long-time rival of Mr Kérékou. Several other more minor candidates have filed complaints about the election process with the constitutional court.

It is, alas, possible that a second round may not take place. Mr Kérékou has talked darkly of following America's example in 2000 by taking months to verify the first-round results. His critics say he is stalling for time to handpick a favoured successor to run again if the first round is invalidated. So far, however, his promise to give up power has to be taken at face value. Benin's democracy-loving people should make him stick to his word: it could be the former general's greatest legacy.

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Zimbabwe

Poor wretched women

Mar 16th 2006
From The Economist print edition

Lack of foreign exchange is making life unbearable

THERE is some relief in sight at last for Zimbabwe's women. About 30 tonnes of tampons and sanitary pads have recently been trucked from neighbouring South Africa. Nearly 5m women are thought to be using old newspapers, rags or even tree fibre as alternatives, often leading to infections. “We are sitting on a health time-bomb,” says Thabitha Khumalo of the Women's Advisory Council, a local support group. Getting no sympathy from her government, she launched a campaign abroad—and has been overwhelmed by the response, as donations have poured in from Britain and South Africa.

Most sanitary products have to be imported and are now inaccessible to many women. Unemployment stands at 75%; most women lucky enough to have a job make about $20 a month. The official value of the local currency has plummeted by a factor of 16 in the past year, with inflation at over 780%. Lack of foreign exchange makes it hard to import even the barest necessities. The government is now thinking of taking over 51% of foreign mines (see article), the main remaining source of hard currency.

The foreign-exchange shortage has been worsened by the government's decision last August to start repaying the IMF the minimum required to prevent Zimbabwe's expulsion from the body; the extra $9m it scraped up in February did the trick. But on March 8th, the IMF decided that this was not enough to restore Zimbabwe's voting or borrowing rights. To repay the fund, the central bank has kept the economy starved of foreign exchange and printed dollops of money—stoking inflation.

Arthur Mutambara, who was chosen as the new leader of the opposition Movement for Democratic Change (MDC) at a party congress held at the end of last month, is unimpressed. A former student activist, he has just returned to Zimbabwe after 15 years in South Africa and the United States. He deplores the country's meltdown, but so far his ideas to revive the economy have sounded rather vague. The MDC itself is in meltdown, following a split in November. The faction led by Morgan Tsvangirai, who was instrumental in setting up the party, has not endorsed Mr Mutambara's leadership and was intending to hold its own congress on March 18th. Poor Zimbabwe.

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The Balkans after Milosevic

Aftermath of a dictator

Mar 16th 2006
From The Economist print edition

AFP

Serbia's government is shaky, and its people are despondent—but about their future, not about their past under Slobodan Milosevic

Get article background

ON THE evening of March 11th, something unusual happened at Belgrade's Vanila Club. The managers agreed not to turn the music on until midnight, out of deference to a few old people trickling by to light candles for Slobodan Milosevic at his old party headquarters next door. Mr Milosevic, former Serbian and Yugoslav president, had been found dead in his cell at The Hague war-crimes tribunal that morning. Yet by midnight, he was history: normal life resumed, as Belgrade's young things danced the night away.

Across town something else was happening. The finals were being held for the choice of group to represent Serbia and Montenegro at the next Eurovision song contest. When it was announced that a Montenegrin band had won, Serbs in the audience went berserk, screaming “thieves, thieves” at the Montenegrins, whom they suspected of vote-rigging. Security guards intervened, the Montenegrins were evacuated and the country withdrew its entry. On March 12th Zoran Zivkovic, a former Serbian prime minister, commented that the Eurovision row had caused “much more excitement than the death of Slobodan Milosevic.”

Indeed, these two scenes say more about life in Serbia today than all the ponderous punditry after the death of Mr Milosevic. His legacy, put simply, was the destruction of the former Yugoslavia, the impoverishment of millions, over 130,000 deaths and millions more ruined lives (see article). This week, he was seriously mourned only by a small band of old folk. Young people are more concerned with the future and trying to live like their counterparts elsewhere in Europe.

Even the Serbian government, though briefly thrown off course by Mr Milosevic's death, was more worried about the end of the country than about events in The Hague. The federation of Serbia and Montenegro seems likely to expire when Montenegrins vote on secession on May 21st. Later in the year, the province of Kosovo may well win independence too.

None of this means that the death of Mr Milosevic will have no impact on Serbia and the Serbs. It will, but not in the sense of changing day-to-day life or politics. That Mr Milosevic, who was charged with genocide and crimes against humanity, died unconvicted by the war-crimes tribunal in The Hague will mean that his legacy remains in dispute. For generations to come some will laud him as a saviour of the Serbs. Others, notably the Muslims of Bosnia, the Croats and the Kosovo Albanians, will see him as the man who armed and incited forces ready to rape, murder and ethnically cleanse in pursuit of a greater Serbia.

How all of this plays out and what it means for the future of the Balkans is a question that may be clearer in a

hundred years' time than it is this week. As the Serbs have reminded the world over the past 15 years, everything would have been different had they not lost the Battle of Kosovo to the Ottoman Turks in 1389.

The Serbian authorities have been rocked by arguments over how to respond to the unexpected death of Mr Milosevic. Vojislav Kostunica, who is now Serbia's prime minister, is also the man who first took over as president in 2000. His problem is that he runs a fractious minority government, which relies on the votes of 22 deputies from Mr Milosevic's Socialist Party of Serbia. For them Mr Milosevic has been an icon. They have played the death for all it is worth, for example by demanding a full state funeral. This idea was dismissed as “inappropriate” by President Boris Tadic. Yet, after much bargaining, the authorities gave the go-ahead to a private funeral in Serbia; by mid-week the body was on display in Belgrade.

The Socialists decided in the end not to demand more because, had they withdrawn their support from the government and provoked an election, they might have been annihilated. By contrast, the party that might hope to gain from Mr Milosevic's death is the nationalist Serbian Radical Party, which although it is not in government is already the strongest in parliament. Its leader, Vojislav Seselj, is—as Mr Milosevic was—incarcerated in The Hague. But Daniel Sunter, head of a Belgrade think-tank, the Euro-Atlantic Initiative, thinks that the Radicals' “necrophiliac approach” to capitalising on the death will yield little. “After all,” he says, “people remember the bad old days when Milosevic was in power.”

Once the funeral is over, it will be back to politicking as usual. Unlike at the Vanila Club, that will bring renewed tensions. Just before Mr Milosevic died, one top Serbian official said that the government was under such strain, trying to cope with so many difficult issues at once and with such little room for manoeuvre, that one could “hear the cracks.” Talks on the future of Kosovo will continue, and are more than likely to end in independence for Serbia's southern province, which is lived in mostly by ethnic Albanians. The government has done almost nothing to prepare Serbs for this unwelcome development. One western diplomat sums up its approach as: “We are going to throw ourselves in front of the train and then blame you [ie, the West].”

On April 5th Serbia is due to resume its talks with the European Union about an association agreement, the first step towards putative EU membership. But EU officials have said the talks will not happen unless General Ratko Mladic, indicted for genocide by The Hague tribunal, is handed over, or crucial evidence is provided that leads to his arrest. After that comes the Montenegrin referendum.

The result of all of this is that many Serbs are pretty despondent about the future. On the day that Mr Milosevic died, EU foreign ministers met their Balkan counterparts in Salzburg. They issued a statement that the “EU confirms that the future of the Western Balkans lies in the European Union.” But they added the rider that “the EU also notes that its absorption capacity has to be taken into account.” This dispiriting note will be unwelcome not just to Serbia but to all other Balkan countries.

Some hope that the death of Slobodan Milosevic is the end of an era. It may not be that. But if in a year's time the Mladic saga is over, arguments over Kosovo and Montenegro have died away and Europe's foreign ministers have overcome their enlargement fatigue, it might prove to have been the beginning of the end.

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France's student protests

Les évènements, encore une fois

Mar 16th 2006 | PARIS
From The Economist print edition

The de Villepin government faces its sternest test over its new labour law

AFP

Grim echoes from May 1968

BARRICADES, several deep across the cobblestones, block the entrance to Paris's Sorbonne University. Fleets of riot-police vans line the surrounding roads. “We will get only what we know how to take,” declares the graffiti sprayed across the wall. Many students think it is May 1968 all over again. Indeed, that might explain the heavy security around the left-bank university, days after riot police went in to break up a night-time occupation by some 200 students. Scenes of violence followed, with furniture and ladders hurled from first-floor windows, and damage of as much as €1m ($1.2m). Further clashes broke out this week.

Much of the Sorbonne violence was no doubt orchestrated by troublemakers and hard-left elements. But less violent student unrest continued right across France this week. Some 40,000 protesters marched in cities around the country; more demonstrations, backed by trade unions, are planned. Roughly half the country's 84 universities have been either completely blocked by sit-ins or disrupted by student protests, according to the education ministry. Several university chancellors have supported the students' demands.

Their principal grievance is the *contrat première embauche*, or first job contract, devised by Dominique de Villepin, the prime minister, for those under 26. It would allow employers to shed workers without justification, though with notice and some compensation, during their first two years. After that, employees would be protected under the same terms as standard permanent job contracts.

Although the aim is to encourage job creation in a country with 9.6% unemployment, resistance has been intense. Polls suggest that most French voters are against the new contract. For the left, it has become a potent way to mobilise anti-government feeling. Even moderate trade unions are refusing to talk to the government unless it scraps the contract, due to take effect in April. Some Socialist deputies have appealed to the Constitutional Council, the highest court, to get the law ruled unequal and so illegal. Jack Lang, a leading Socialist, has called on President Jacques Chirac to dissolve parliament.

So far, Mr de Villepin has stood his ground. Backed by Mr Chirac this week, he insists that he will not withdraw the contract, though he is prepared to talk about improving some guarantees for those who are fired. But he looks increasingly lonely. His poll ratings have collapsed; one this week showed that he had lost 11 points in a month. *Le Monde* has accused him of “autism”. Even his own party has started to mutter about the doubtful wisdom of pressing on. Despite managing the Sorbonne evacuation, Nicolas Sarkozy, his interior minister and potential rival candidate in next year's presidential election, has been almost audibly quiet.

In the face of such hostility, each of the presidential hopefuls faces a delicate political calculation. Mr de Villepin, a careful student of French political history, has concluded that no prime minister who backs down in the face of street protest is ever rewarded by the voters. He is betting that, by standing firm, and waiting for another fall in unemployment, he will earn a reputation for courage that will outweigh the charge of political deafness.

As for Mr Sarkozy, he risks being pulled down by Mr de Villepin's troubles. Several polls show that his popularity is falling alongside the prime minister's, albeit less steeply. Should he stay in government until the UMP party, which he heads, chooses its official presidential candidate in January next year? The longer he does, the greater the danger of fatal contamination. But if he quits ahead of time, he risks being accused of promoting his own needs above those of his fellow citizens.

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Italy's election

Television drama

Mar 16th 2006 | ROME
From The Economist print edition

Romano Prodi emerges well ahead from the first televised debate

IT WOULD be ironic if Silvio Berlusconi, the supreme media politician, were to be toppled by television. But after the Italian prime minister's ill-starred televised debate with his centre-left challenger, Romano Prodi, on March 14th, that looks a distinct possibility. Within 24 hours, Mr Berlusconi's main allies had launched fierce attacks on his performance that can only undermine his leadership of the centre-right as it braces for the election on April 9th and 10th. Pier Ferdinando Casini, leader of the Union of Christian Democrats, called it a "missed opportunity". The deputy prime minister, Gianfranco Fini, who leads the National Alliance, said that Mr Berlusconi gave "the impression that all was well" but that floating voters knew "society still has many problems".

Mr Berlusconi himself looked disappointed even before the credits rolled on a tightly regulated duel in which both men were limited to timed answers to identical questions. The prime minister used up precious seconds of his closing address to complain about the format. A journalist reported hearing him mutter "bad, bad, bad" as he left. Mr Prodi, by contrast, positively beamed with satisfaction. Though handicapped by his husky voice, he displayed the more confident body language. Unlike his opponent, he spoke consistently to the camera, and hence to the undecided voters who were the real targets for both candidates. A survey this week suggested that 47% of viewers preferred Mr Prodi, against just 35% for Mr Berlusconi—though the polls also say that a quarter of voters have yet to make up their minds.

Until the debate, issues such as the sick economy had disappeared from the campaign amid rows about Mr Berlusconi's influence over the media and his use of it to talk up his government's record. That tactic backfired in the debate. By concentrating on the past, Mr Berlusconi let his opponent, who was prime minister before he became European Commission president in 1999, come across, rather unusually, as a man of the future.

After a string of attention-grabbing remarks by the prime minister, who has compared himself to Jesus Christ and pledged to give up sex until after the vote, pundits expected some memorable sound-bites. None was forthcoming. "This [was] not the political spectacle to which Silvio has made us accustomed," said Antonio Cornacchione, a comedian who likes to impersonate the prime minister while dressed as Napoleon. His act points to another emerging feature of the campaign. Mr Berlusconi's impudent self-confidence, once his greatest asset, now comes across as self-righteous pig-headedness.

Not the least important point about the television debate was that it put both men on an equal media footing for the first time since they squared off in the 1996 election campaign. Mr Berlusconi's discomfort ten years on was visible. He repeatedly overran his allotted time and ceded to the moderator only with irritated reluctance. Italy's prime minister is not a man who is used to being interrupted.

Nor is he used to being contradicted. On March 12th, he walked out of a television interview in protest over hostile questioning. By staying calm, he might have minimised the damage and even attracted some sympathy in a society that is not used to journalists challenging politicians. Yet the walk-out also suggested that he was a man who considers himself to be above any need to argue his case. Europeans have a long record of unsentimentally discarding leaders they feel may have got carried away by their own importance. It happened to Charles de Gaulle and to Margaret Thatcher. It could equally well happen to Silvio Berlusconi.

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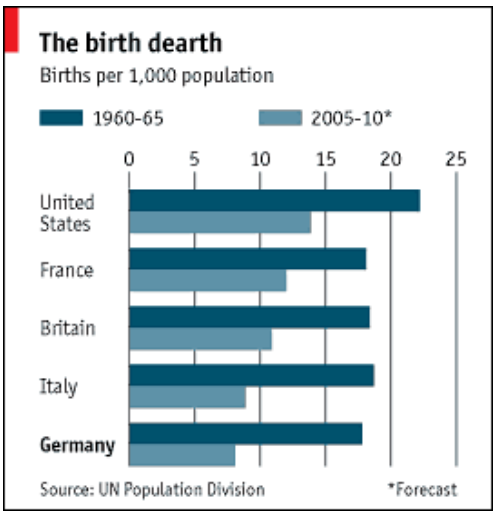
German demography

Cradle snatching

Mar 16th 2006 | BERLIN
From The Economist print edition

The difficulties of living with a low birth-rate



ALARMING as it might sound, it is hardly news that Germany is becoming the world's nursing home. No other rich country has a lower birth rate (see chart). Last year, the number of births hit a post-war low of 680,000—half the combined number for both parts of Germany 40 years ago. The total population has now been shrinking for three years in a row. A report published this week by the Berlin Institute for Population and Development points out one of the less obvious consequences of this: rising competition between regions for scarce young people.

"Demographic theft" is already commonplace. Over the past 15 years, Germany has had a wave of internal migration not seen since the second world war. Much of it has been from east to west, with 1.5m people leaving Germany's poorer part, causing some regions to lose nearly a third of their population. But people have also been moving from north to south, notably from the Ruhr area to Bavaria and Baden-Württemberg, the southern German states that are doing best economically. These two are now home to almost 30% of the population.

One result is that demographically growing regions keep growing, while those losing people go on doing so. Once caught in a vicious circle, it is hard for a region to recover: after losing the young, female and well-educated, municipalities have to close schools, increase utility fees to finance an oversized infrastructure and spend more on an ageing population—all of which makes them still less attractive. One visible sign is the number of windows without curtains: in eastern Germany, 1.3m apartments stand empty, 16% of the total.

Local politicians are at a loss over what to do in "shrinking" regions. Indeed, so is the country as a whole. Post-war Germany has gone to great lengths to ensure "equality of living conditions", a principle enshrined in the country's Basic Law. This was feasible so long as regions were not too different. But with today's disparities, equalisation costs too much. Instead of spreading its money widely, argues Reiner Klingholz, director of the Berlin Institute and one of the authors of the study, the state should concentrate its help on regions and cities that are economically promising.

The most obvious answer, raising the birth rate, is hard to achieve. And at least a low birth rate is good news for animals. As humans withdraw, wildlife is returning, notably near the eastern border. The lynx can be found again. The Lausitz, part of Saxony, is now home to two packs of wolves. Some even expect bears to come back one day. Their reappearance might be the ultimate sign that Germans really are a dying breed.

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Charlemagne

Union blues

Mar 16th 2006
From The Economist print edition

European leaders gathering at next week's summit should stop and ask how bad things are

IT'S like 1914, asserts Giulio Tremonti, Italy's finance minister. The four freedoms (of goods, capital, labour and services) are being undermined by self-declared “economic patriots” manipulating takeover laws and creating national champions. “The European Union is dead and we should act accordingly.” Nonsense, retorts José Manuel Barroso, president of the European Commission. These are just growing pains. The single market is being strengthened by cross-border mergers. The reaction from national capitals, deplorable as it may be, is just a backlash against inevitable change.

Who is right? Mr Barroso is correct that a merger wave is under way that transcends national boundaries and may change the face of European business. Merger mania is also evidence of renewed corporate self-confidence across the continent. In the past, says Mario Monti, a former EU competition chief, bosses contemplating cross-border mergers would have trembled at the frown of national governments. Now they stand up to them.

Mr Barroso could also have pointed out that the backlash against cross-border takeovers is by no means confined to Europe. The United States Congress has just blocked Dubai's purchase of American ports; before that, it stopped a Chinese bid for Unocal. One country's spasm of economic nationalism does not justify another's. But it suggests that there is nothing uniquely European about the process. Indeed, America's protectionism may have egged on France's. Dominique de Villepin, the French prime minister, has repeatedly referred to American corporate flag-waving as justifying “economic patriotism”.

In any case, it is not clear that things are worse in the EU than they were. Two years ago, the French government frightened off a bid by a Swiss drug company for a French one, by threatening to deploy regulatory levers. Conversely, Britain is not seeking to block foreign bids for such assets as its airports, mobile-phone companies or big banks. Perhaps the recent rush of political interventions in business may be unusually numerous. But that is a difference of degree, not kind.

Yet the case for worrying does not deny this. Instead, it posits that, despite the good things going on in the marketplace, politicians could still mess everything up. When Mr Tremonti talked of 1914, he did not mean that Europe was about to explode in a welter of blood, starting with a death in the Balkans. What he meant was that short-sighted politicians whipping up nationalist fervour just might blunder into a conflict whose seriousness they had not grasped in advance. This is not the opposite of Mr Barroso's optimism. It is consistent with it.

In a democracy, political leadership sometimes means telling voters they are wrong. In Europe, in recent years, too many politicians have flunked this test. Worse, they have encouraged many voters' fears by peddling the misleading line that globalisation is in some way a threat to European livelihoods. That process was boosted after much of elite opinion chose to interpret the French and Dutch referendums last summer as votes not against the EU but against globalisation.

Politicians committed to “the European project” seem unable to accept that voters might have turned against their beloved creation. Hence the appeal of talking up the perils of globalisation as an alternative explanation. This has the merit both of being plausible (anti-globalisation campaigners did have something to do with it) and of appealing to Euro-enthusiasts because, for them, being European is partly bound up with being anti-American and with opposing globalisation.

It is this account of the referendums that has helped to prepare the way for renewed economic nationalism. Politicians who chose to interpret the no votes as being cast against globalisation have fallen back on nationalism partly because, in their view, those votes have weakened the entire European project.

The nationalist revival

In this sense, Mr Tremonti is right: there has been a political failure that is connected with the EU's obsession with institutional reform. But the question is not whether it will fatally undermine the single market. Short of some Mitterrandesque attempt to renationalise chunks of the economy, that seems highly unlikely (and note that the Suez-Gaz de France merger would actually reduce the French state's ownership). Rather, the question is how much damage a resurgence of economic nationalism could do.

The answer is, potentially, a lot. Despite all the mergers, the single market remains weak. Over the past decade intra-EU trade has grown more slowly than the block's external trade. That has not changed since the launch of the euro, which was supposed to boost trade among those that use it.

The authorities also look weak. The commission has few heavyweights. Commission-bashing has become a favourite refuge of patriotic scoundrels. The stability pact meant to support the euro has been ripped up and replaced by a feebler remake. The trade commissioner has been reduced to threatening poor countries with endless anti-dumping sanctions. The big test of institutional strength now may come if EU competition authorities rule against one of the putative national energy champions. If they try, and governments seek to get round the ruling, even the commission's ability to police the single market, the core of its authority, would be compromised.

The EU has not reached that point yet. It may never do (another energy firm may snatch Suez from Gaz de France). But the danger is clear and present. At next week's summit, European heads of government will no doubt be tempted to ignore these troubles and talk about the Lisbon Agenda instead. But those who believe in open markets and the case for globalisation should confront them. If damage to the single market cannot be contained now, when Europe's economies are reviving, what will happen in the next recession?

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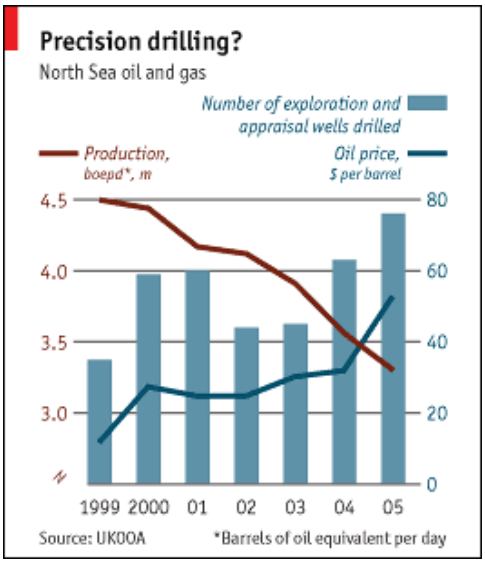
North Sea oil and gas

The long goodbye

Mar 16th 2006 | ABERDEEN
From The Economist print edition

High oil prices have helped slow the North Sea's decline. Government flip-flopping could accelerate it again



NOBODY disputes that Britain's part of the North Sea is past its prime. Oil and gas production peaked at 4.5m barrels a day in 1999 and has fallen steadily ever since, to 3.3m now (see chart). Yet in Aberdeen, Britain's main oil town, talk of an old “province” in decline is not tolerated. “The North Sea is enjoying a vibrant middle age,” insists one oilman. “I think I'd describe it as mature rather than declining,” muses another. Indeed, most of the industry's problems seem to be the sort associated with a boom, not a bust. Oil bosses complain about a shortage of skilled labour and the astronomical price of rig rentals, which have doubled since 2003.

A combination of high oil prices and some new government policies have made it profitable to keep working in what is an increasingly difficult and expensive place to drill for oil and gas. Investment has risen by 30% this year, and more exploration and appraisal wells are being drilled than at any time since 1997. The UK Offshore Operators Association (UKOOA), a trade body, thinks that the rate of decline will slow markedly next year. By 2007, production should be slightly higher than last year.

That will be music to the ears of a government determined that the North Sea should still be pumping 3m barrels a day in 2010. The petrochemical wealth off Britain's eastern shores supports a quarter of a million jobs and has helped to insulate the country from the vagaries of the international oil market for decades. Were the decline to continue at historic rates, production would be all but finished in 20 years.

There is no shortage of hydrocarbons: although 34 billion barrels have been produced, some 23 billion barrels are thought to remain. But many of the big, easily accessible fields are running down, and what is left is much harder to reach. That is changing the character of the industry.

One way to keep production up is to explore the waters off northern Scotland, the Shetland Islands and the deep Atlantic to the west of Scotland, where little exploration has so far been done. Two of the biggest recent finds—Buzzard (with around 500m barrels of oil and gas) and Lochnagar (perhaps 250m barrels)—were found off the beaten track. But developing them can be difficult. Rhum, a big gas field in the northern North Sea, was first discovered by BP in 1977, but the high pressure and temperature in the field meant that gas was not produced until December of last year. “A decade ago, a lot of this stuff would have been literally impossible to extract,” says Mike Tholen, UKOOA's economics director. “But technology has moved on.”

Another option is to scrounge every last drop of oil and gas from existing fields. Finance, not geology, determines when an oil company quits a field, and it may leave behind substantial amounts of oil that are technically (but not economically) recoverable. The dregs of the big fields are often of only marginal interest to the big firms, which prefer chasing bigger and easier finds in other parts of the world such as the Gulf of Mexico or west Africa. Smaller, leaner companies are often able to pull the remaining oil out at a profit.

With all that in mind, ministers have been changing the rules to encourage smaller and more innovative firms. New licences allow companies to explore patches of ocean before they have finance arranged, and to hold on to difficult areas for six years instead of four. New rules prevent companies from sitting on unexploited discoveries for years at a time. And changes to the code of practice on access to pipelines (which are often owned by big oil companies) ensure that smaller companies can get their oil to market.

The new rules have proved popular. The latest licensing round, held in the summer of 2005, was the most successful in years. A total of 152 licences were offered to 99 companies, many of them in the frontier areas around northern Scotland and the Shetlands. A quarter of the companies were new to the North Sea.

But government can hinder as well as help, and not all its policies are so popular. The oil industry's relations with the Treasury have been poisoned by a series of sudden tax changes.

The first came in 2002, when Gordon Brown, the chancellor of the exchequer, raised the corporation tax for oil firms to 40% (most companies pay 30%). In November last year, he bumped it up to 50%. Furious oilmen accused the chancellor of risking the North Sea's future. UKOOA says that the changes create uncertainty, threatening future investment, and that they will do the most harm to the small firms that the government wants to attract. In its defence, the Treasury points to record oil company profits and insists that its only aim is “a fair deal for the taxpayer”.

“The new taxes will probably bump the North Sea a few notches down the competitiveness ladder,” says Geoff Gillies, an analyst at Wood Mackenzie, an energy consultancy. “But at today's oil price, the impact on development will be minimal.” The danger will come if prices start to slip, as Wood Mackenzie thinks they will do over the next few years. Kieron McFadyen, a director at Shell UK, says that if expensive oil justifies higher taxes, then cheaper oil ought to bring tax cuts to compensate.

The death of the North Sea has been predicted many times before, points out Melfort Campbell, the head of the Scottish branch of the Confederation of British Industry. Yet technological advances have always confounded the gloom-mongers. The region will be even more dependent on innovation in its old age than it was in its youth. Most of the government's reforms reflect that. It would be a shame to see them undone by another tax grab.

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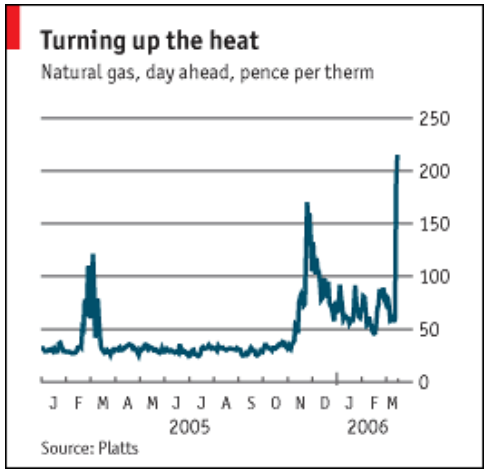
Gas prices

Rough ride

Mar 16th 2006
From The Economist print edition

Record prices raise questions about Britain's gas market



BRITONS shivered through a cold snap at the start of this week when temperatures plunged to unseasonable lows and snow dusted much of the northern half of the country. Businessmen shook harder than most, as the frigid weather again played havoc with Britain's volatile natural gas markets. Prices climbed from 59p per therm ($1.02) on March 10th to touch 255p on March 14th, before falling back a bit. That beat the previous record of 165p, which looked bad enough last November.

Making moods worse this time was the first-ever “balancing alert” issued by National Grid, the company that runs the gas network. On March 13th the firm warned that tight supplies meant big industrial users might face cut-offs. The Confederation of British Industry, whose warning of a winter supply crunch was dismissed by the government in November, said that firms might have to cut production.

Why are British gas prices so high? The effects of the cold snap were compounded by a fire last month that knocked out Rough, Britain's only big gas storage facility. A depleted North Sea field, Rough provides around three-quarters of Britain's limited gas storage which, at just 13 days' supply, is already far less than the several weeks' supply that the rest of Europe stores up.

But there are more fundamental reasons. The decline of the North Sea (see article) means that domestic production no longer always meets demand. Because that has long been forecast, new import facilities are being built, including a pipeline to Norway and two new Liquid Natural Gas (LNG) terminals. But the transition to imported supplies is happening faster than most expected. Much of the new infrastructure will not be ready for another year or two. Once it is, says the government, the supply crunch will abate.

Will it? The import facilities that do exist—including a newly-upgraded pipeline to Belgium and a new LNG terminal on the south-east coast—have not lived up to expectations. The pipeline often runs half-empty, despite the high prices, and few ships dock at the terminal.

Ministers blame European markets, which, despite a 2003 EU directive requiring them to open up, remain opaque and monopolistic. State-owned companies dominate on the continent. British ministers (as well as the European Commission) argue that the lack of proper market discipline means Britain's plaintive price signals often go unheeded.

That's probably true, but blaming recalcitrant Europeans does little to help British businesses, who now pay much more for gas than their continental counterparts and have to deal with yoyoing prices to boot. Ministers are conducting an energy review looking at, among other things, security of energy supplies. The government has insisted that it remains committed to liberalised markets. That resolve is being sorely tested.

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Reshaping the BBC

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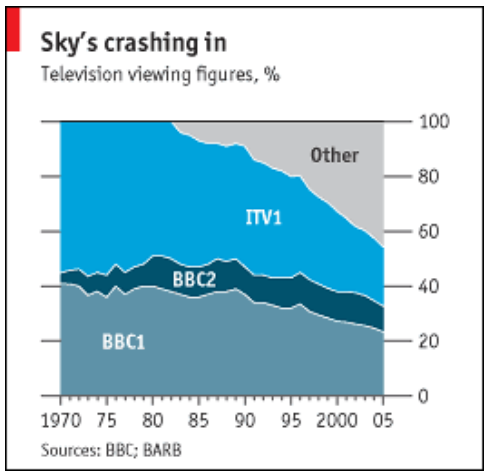
Mar 16th 2006
From The Economist print edition

The government has granted the BBC its wishes on almost everything



"THE Reithian aims will continue," said Tessa Jowell, minister for culture, as she introduced the government's white paper on the BBC this week. Lord Reith, who set up the Beeb in the 1920s to "inform, educate and entertain", would be delighted, and probably surprised. His creation has managed to survive and expand largely unaltered for 84 years, while broadcasting has changed fundamentally. It now has generous public funding until 2016, and Britain will keep spending far more on state broadcasting than any developed country except Germany. The outcome is a triumph for the BBC.

There was a time not long ago, in the depths of the BBC's crisis over an inaccurate report about the Iraq war in 2003, when the future of the corporation looked dark. Most worryingly, Ofcom, the media regulator, and others were questioning whether its licence fee—a flat tax on all households with televisions—was still justifiable. The digital era, after all, has brought hundreds of new channels, and the BBC's share of the audience is falling (see chart).

The government and Ofcom also seemed to want to define the BBC's purpose according to economic principles alone. State-dictated funding is justified only when the market fails to give people what they want, the thinking went. The BBC would have been reined in and told to stick to the kind of worthy fare that commercial broadcasters, such as ITV, BSkyB and Virgin Radio, provide less of.

In the end, the government decided to dispense with economic theory and ride on the BBC's vaunted popularity instead. Though some consider the BBC an anachronism, Ms Jowell told Parliament, "the British people disagree." That is not entirely true: the BBC may be popular, but the way it funds itself is not, especially in poorer households. Only 46% of Britons support the licence fee, according to Ofcom, and more people oppose than back it in Scotland and Northern Ireland.

As well as renewing the licence fee, Ms Jowell has ordered the BBC to go out and entertain—precisely what its commercial rivals do best. That is particularly odd after Ofcom scolded the corporation in 2004 for dumbing down its programming with too many soap operas and too few arts and drama shows in peak time. The government has also expanded Lord Reith's formula to give the BBC six rather nationalistic-sounding new purposes, including "sustaining citizenship" and "bringing the world to the UK and the UK to the world".

One part of the white paper does make sense. When the BBC plans a new service, such as the suite of digital channels it launched in 2002, Ofcom will for the first time play a part in deciding whether to allow the expansion. The regulator's economists are more likely to care about a new venture's damaging impact on the commercial sector than is the BBC itself. Commercial competitors argue, however, that much of the damage has already been done. Newspaper companies, for instance, are rapidly losing readers to the internet, and they complain that the BBC's generously-funded free news website stops them attracting readers back online.

The BBC's director-general, Mark Thompson, and its chairman, Michael Grade, say that the white paper brings "radical reform". Its board of governors will be replaced by a more independent trust. It is the least that the government could have done, given widespread criticism of the BBC's in-house governance.

All the Beeb needs to make sure of now is the level of its licence fee, which is to be set soon. It has asked for a large annual increase—inflation plus 2.3%—partly because the government wants it to help with switching the country to digital television by 2012. Commercial media fear that the more money the BBC gets, the more it will trample over their territory. The Treasury has reportedly told the Beeb that it has no hope of being given that much. Gordon Brown, the chancellor, is now the last chance to contain Auntie.

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Education reform

Tory votes save Blair's bill

Mar 16th 2006
From The Economist print edition

But the battle goes on in committee

THAT Tony Blair would get his schools reform bill over its first legislative hurdle was never in doubt once the opposition Tories had committed themselves to vote for it. What mattered was how many Labour MPs were prepared to defy the government over a bill that many were unhappy with and some detested.

In the event, after protracted negotiations, some concessions and a good deal of old-fashioned arm-twisting, a potential rebellion of over 100 members was squeezed down to 52, with some abstentions. It was uncomfortable, but some way short of lethal.

What should trouble the prime minister more than the parliamentary arithmetic is the extent to which he was forced to dilute the proposals made last October. His aim was to give all schools the freedom to become independent, non-fee-paying, trust schools. The idea was that they would be independent of local education authorities (LEAs), engaging with outside sponsors such as businesses, charities, religious groups and universities as well as with other successful schools. Trust schools would be free to develop their own ethos, varying the curriculum and tinkering with admissions policies. They could expand to meet demand, even if nearby schools were affected. LEAs would cease to be providers of educational services and become pure commissioners.

Much of this was anathema to Labour MPs. Many are still strongly committed to the ideal of the neighbourhood comprehensive and see LEAs as the guarantors of fairness. They feared that, in a more market-based system, poorer children would lose out and some schools would exploit their new freedoms to bring back some form of selection.

To appease these worries, the education secretary, Ruth Kelly, made a number of concessions. Effective LEAs will be allowed after all to build new neighbourhood schools. There will be no selection by ability in the new schools, interviews will be banned and the admissions code for schools will be strengthened.

The question now is what further depredations the bill will suffer in committee stage. David Chaytor, a Labour member of the all-party education select committee in the House of Commons, hopes to be one of those scrutinising the bill. He is drafting amendments to curtail Ms Kelly's power to prevent LEAs of which she disapproves from setting up new schools.

The strongest challenge to the bill, he says, will come from MPs who want to outlaw selection by ability in the 164 remaining grammar schools. He thinks there may be an amendment abolishing the 11-plus test, a longstanding Labour shibboleth that sends more academic children to these schools at a tender age.

Nick Gibb, the Tories' shadow schools minister, describes this threat as “catastrophic” and warns that such a change could cause his party to vote against the bill on its third reading. He calls the reform a “very modest measure”, saying that his party has swallowed the concessions made so far because the bill is still a move in the right direction.

The Conservatives, meanwhile, are plotting their own amendments. One would give religious schools a statutory right to interview prospective pupils. Another would give all schools the right to appeal against decisions by the schools adjudicator, who has the power to decide on opening new schools and closing or merging bad ones, on admissions arrangements and on other such matters.

As for the government, it finds itself energetically claiming victory while trying secretly to salvage as much as it can. The only certainty is that almost nobody will be happy with what finally emerges.

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Party finances

Labour and its loans

Mar 16th 2006
From The Economist print edition

The row over undisclosed lenders is eroding Blair's authority

IT WAS already a fraught day for Tony Blair. Just an hour before the tense vote on schools reform, Jack Dromey, the Labour Party's treasurer, made it a good deal worse by throwing a can of petrol on the smouldering row over what has become known as the cash-for-peerages scandal.

Mr Dromey is also the deputy general secretary of the Transport and General Workers' Union and husband of the constitutional affairs minister, Harriet Harman, who resigned her responsibility for electoral reform on March 16th. Mr Dromey is an angry man. He would have known, of course, that three Labour nominees for peerages had been blocked by the House of Lords appointments commission. Over the weekend, he read press accounts of the reason: the party had failed to say that each had lent it more than £1m.

The candidates in question were Chai Patel, chief executive of the Priory Group, Barry Townsley, a financier, and Sir David Garrard, a property developer. Because the loans are interest-bearing (though the rate is not made public), they do not have to be disclosed. The commission must nonetheless investigate financial links between nominees and the party they will represent in the second chamber. Both Sir David and Mr Townsley have withdrawn their names from the list of nominations.

What especially riled Mr Dromey was that he had been told nothing about the loans, although as the elected treasurer of the party he jointly signs the annual report on its finances. In a television interview, he accused the prime minister's entourage of showing a lack of respect for the party. “What I want to do,” he said, “is assert the democratic integrity of the Labour Party. Whoever I need to talk to to get to the bottom of this, I will do precisely that.”

For all the heat, there is no suggestion that anything illegal has taken place. The day-to-day finances of the party are a matter for the general secretary, who, at the time the loans were made, was Matt Carter. Mr Carter appears to have agreed their terms with Labour's main fundraiser, Lord Levy, who is a close friend of Mr Blair.

But Mr Dromey is not finished. He is working with the party's new general secretary, Peter Watt, to report on what happened to Labour's National Executive Committee when it meets next Tuesday. He also wants the Electoral Commission to launch an inquiry into the “wider public interest issues”. The public administration committee of the House of Commons is set to look into the matter as well.

At his monthly press conference on March 16th, Mr Blair expressed his own exasperation with the current system of honours and party funding. Labour had made some reforms since 1997 but they needed to go further. The cabinet secretary rather than the prime minister should recommend honours; donations should be capped; the rules on loans should be reviewed; and parties should receive more state funding. Mr Blair also supported the appointment of an independent figure to advise ministers on the code of conduct.

Nine years ago, Mr Blair promised that Labour would be “purer than pure, whiter than white”. These new proposals have come too late to lift the dingy shade of grey that has settled on his government.

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John Profumo

Public private partnership

Mar 16th 2006
From The Economist print edition

Why the Profumo affair made the perfect political scandal

PA

Last day in the limo

SHORTLY after he resigned as minister for war in 1963, John Profumo started a new career cleaning toilets at Toynbee Hall, a foundation that helps poor people in east London. Mr Profumo, who died last week, had to be persuaded to lay down his mop and lend a hand running the place, but that is what he did for the next 40 years. His work there will endure, but Mr Profumo will be remembered for something else: an affair that helped to topple a government and changed the relations between politicians and the press for good.

Mr Profumo met Christine Keeler at Cliveden, a neo-classical pile in Berkshire that belonged to Lord Astor. They began a brief affair. Unfortunately for Mr Profumo, she also slept with Yevgeny Ivanov, the Russian naval attaché, who was a spy. An affair became a security risk, and Mr Profumo lied to cover it up. He denied the affair in the House of Commons and successfully sued two magazines, *Paris Match* and *Tempo Illustrato*, for printing the story. But the truth came out. Mr Profumo resigned, began his long atonement and never spoke about the matter again.

Three things came together to make the Profumo affair the perfect political scandal. The first was, of course, sex. While scandals involving Labour politicians should ideally revolve around money and show noble ideals corrupted by high office, a Tory scandal needs sex, preferably with someone trashy. Miss Keeler, who had grown up in the 1950s equivalent of a trailer park and ran away as a teenager to London to work as a topless dancer, was well cast. She was called a “little slut” and a “dirty little prostitute” in the Commons, proof that attitudes to promiscuity did not change immediately after the licensing of the contraceptive pill in 1961.

Second, the scandal tapped into fears about national security and a fascination with spies. “From Russia With Love”, the second James Bond film, was showing in cinemas in 1963 and featured the same combination of credulous Brits, smooth Russians and a pouting dame as the Profumo affair itself. Kim Philby, a double agent recruited by Russia, was unmasked in the same year. Harold Macmillan, the prime minister, had previously told the Commons that Philby was no spy: his government was left looking perforated.

Third, the affair coincided with changes in the press. By the 1960s, a third of the population watched television on a typical night, so good ratings for the scandal were guaranteed. Reporting was becoming less deferential, and there was satire to contend with too. *Private Eye*, first printed in 1961, re-wrote Macmillan's campaign slogans to come up with “we've never had it so often” and “life's better under a Conservative”. Mr Profumo also appeared as “Sextus Profano”, chief of the Praetorian Guard in a pastiche of Gibbon's “Decline and Fall of the Roman Empire”.

Since the Profumo affair, sex scandals have become a staple of British politics. Before 1963, ministers resigned over matters of principle or because the budget had been leaked. Now, not leaking the budget would raise eyebrows and ministers are chased from office by the press for personal misdemeanours. In the 40 years before Profumo, only one minister resigned over a sex scandal. Since 1963, about ten have done so. None of them, however, has worked as hard as Mr Profumo did to restore his good name.

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Cemeteries

Full up

Mar 16th 2006
From The Economist print edition

New ways to deal with old corpses

A ROBIN twitters on a stone angel's outstretched arm in Tower Hamlets Cemetery Park, east London, as blue-tits and gold-tits swoop by. Butterflies and birds—35 species of them—draw people to the wooded, 30-acre cemetery, but not burials. Like many graveyards in Britain, a small island with a long history and a lot of dead people, it is full up.

The problem is particularly acute in crowded London. Of 12 inner-city boroughs, two have no burial space left and the rest are within a few years of running out. Anecdotal evidence suggests that rural burial areas are also feeling the squeeze. Part of the problem is that, because local authorities are not obliged to provide burial space, nobody knows how many cemeteries Britain has, open or closed. But Julie Rugg, of York University's Cemetery Research Group, puts the figure at between 5,000 and 10,000, and reckons the problem of space constraint to be “extremely serious indeed”.

Take Tower Hamlets, which has not one available burial plot. Tim Tadman, a third-generation undertaker in the borough, explains that while his father and grandfather inhumed the locals in the pretty wooded cemetery, he has to go further afield, which costs extra. Local authorities charge up to four times the usual price to bury non-residents. This has contributed to an overall rise of 61% in the cost of interment since 2000, according to a survey published in January. The average burial now costs £3,307. Besides, burying dead bodies far from home has a cost that is hard to measure, forcing mourners, many of them infirm and elderly, to make expensive and difficult journeys to the grave. Cremation, which disposes of 72% of Britons, is cheaper, but not everyone wants it.

Happily, the problem could be easily solved. Elsewhere in Europe, old graves are dug up and re-used, with the previous occupant's remains unfussily raked into a corner. In British churchyards, which fall under ecclesiastical law, bodies can be moved and graves re-deployed, though they rarely are. In most cemeteries, however, this is illegal, although human remains can be disturbed for reasons other than overcrowding—for example, to make way for a new road. A London by-law allows cemeteries to reclaim graves 75 years after the date of the last interment, but only if no human remains are thereby disturbed and no bereaved relatives object. The City of London Cemetery, the biggest municipal burial ground in Britain, a grey sea of tombstones spread over 200 acres criss-crossed by eight miles of road, resells the rights to such graves. But, with most graves too small to admit additional corpses, the cemetery is nonetheless expected to be full within a decade.

Given the squeeze, the law may soon be changed. The burial and cemeteries advisory group in the Department for Constitutional Affairs is currently weighing a governmental review of burial law. It is expected to recommend cancelling the ban on re-using graves and to advocate the European practice known as “lift and deepen”. This involves excavating a grave, placing its remains in a casket and re-burying them at the bottom of the grave, leaving room for more coffins. Whether the government would act on this advice—which is unlikely, after all, to be a great vote-winner—remains to be seen.

Were it to do so, Britons would discover another cost benefit to lessen the burden of bereavement: a prolific supply of cheap, high-quality tombstones. When the City of London Cemetery adds a corpse to an existing grave, instead of replacing the existing headstone, it swivels it by 180 degrees, and four-sided memorials by 90 degrees, so the old inscription faces away from the grave. This presents a slightly strange sight. But it also means that spectacular Victorian memorials can be had at a snip by the family of the new tenant. The cemetery has a pink Balmoral granite memorial that would cost £40,000 to commission today on sale at £2,000. Generations of stonemasons are, no doubt, turning in their graves.

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Cremation

Up in flames

Mar 16th 2006
From The Economist print edition

Hindus and open-air pyres

A CHILL and muddy stream, frequented by quacking ducks and the odd supermarket trolley, the River Soar is a far cry from the majestic sweep of India's sacred Ganges. But here nonetheless, amid the tinkling of bells and chanting of prayers, many British Hindus come to scatter the ashes of their dead. The Environment Agency, which regulates Britain's rivers, gave permission for them to do so in 2004, under pressure from Hindus in nearby Leicester, home to one of Britain's biggest Indian communities. For British Hindus this was only one advance in their campaign to be free to practise their religion's full funereal rites.

Total victory would mean being permitted to cremate corpses in the open air, thereby, according to their belief, allowing the soul to flee the body unimpeded. Outdoor cremations are illegal in Britain. But earlier this year, members of the Anglo-Asian Friendship Society asked Newcastle City Council to allow them to build an al fresco site for funeral pyres. Davendar Ghai, president of the society, says it is impossible for Hindus to obey their scriptural directions for death and mourning in mechanised British crematoria. According to Hindu tradition, human ashes must be left to cool for three days, for example—and on no account are they permitted to come into contact with those from another cadaver.

Outdoor cremations were banned in 1930, mainly because of fears that dental fillings containing mercury would release dangerous emissions into the atmosphere. Mr Ghai argues that this law, which was passed when there were many fewer Indians in Britain, is out-of-date. He has identified at least one firm of funeral directors that would happily extract metal fillings from corpses. After all, as he points out, undertakers already routinely remove pacemakers from dead bodies.

Newcastle City Council says it is looking forward to reading the Hindus' proposals. If it turns them down, Mr Ghai says he will take his fight to the High Court and, if necessary, the European Court of Human Rights, relying on the 1998 Human Rights Act. He is encouraged by a surprise victory in November for his group in Pakistan, which persuaded the government to promise to build an outdoor cremation site for Hindus in Lahore.

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Bagehot

A ticking bomb

Mar 16th 2006
From The Economist print edition

A full and open debate on the successor to Trident is the last thing Tony Blair needs

AFTER this week's uncomfortably large rebellion over his relatively modest school reforms, Tony Blair will have to pick the remaining battles of his premiership with some care. One that he might be tempted to leave to his successor, but may not be able to, is over the future of the British nuclear deterrent.

In 2003, a defence white paper signalled that a decision on the matter would have to be made during the current parliament. Designed to last around 30 years, the first of Britain's four Trident ballistic-missile submarines will be nearing the end of its life in 2024. Given that it will take about 15 years to develop and deploy a successor system, the government needs to make its intentions clear by 2008. And, before that, Mr Blair has promised a full and open debate on all the issues and options.

In fact, whether Mr Blair likes it or not, the debate has already begun. This week, the all-party defence committee in the House of Commons opened its inquiry into the matter. At the same time, it published a memorandum from the Ministry of Defence which revealed that over the next three years researchers at the Atomic Weapons Establishment will receive over £1 billion ($1.7 billion) of additional funding and will hire more than a thousand extra staff, mostly scientists. Some of the money will be used to simulate explosive warhead tests that have been banned since 1996.

The government insists that all it is doing is keeping its options open. John Reid, the defence secretary, claims that ministers have not even got around to thinking about Trident. Others, including many Labour backbenchers, reckon that work is well under way both on extending the life of the present Trident system and planning its eventual replacement. When Jack Straw was asked directly in a radio interview this week whether the government had already made up its mind to find a successor to Trident, the foreign secretary slightly queasily replied that the government was “giving it consideration”.

On the face of it, Mr Straw's unease was puzzling. Since the end of the cold war, nuclear issues have had little political salience in Britain. And when the 1998 Strategic Defence Review commissioned an independent survey of public opinion it found that about 70% of people favoured retaining British nuclear weapons in all or some circumstances. But for Labour, anything to do with “the bomb” awakens unhappy memories.

It was a Labour foreign secretary, Ernest Bevin, who declared in 1946: “We've got to have this thing over here whatever it costs. We've got to have the bloody Union Jack on top of it.” However, 14 years later, ignoring the pleas of its leader, Hugh Gaitskell, the party voted for unilateral nuclear disarmament. By the time Labour returned to office in 1964, the conference decision had been overturned with the unions' block votes, but the party, with its strong pacifist wing, remained bitterly divided.

Against this background, Labour's next prime ministers, Harold Wilson and James Callaghan, tried to keep any decisions about maintaining or upgrading the deterrent as far from public scrutiny as possible. This only added to the atmosphere of hostility and distrust within the party. By the time of the 1983 election, Labour was committed

to getting rid of all Britain's nuclear weapons. Even Tony Blair, an ambitious new MP, was a paid-up member of the Campaign for Nuclear Disarmament.

When Labour began its long haul back to electability in the early 1990s, unilateralism was one of the first policies to be junked. What made it a little easier was the realisation that a large part of the Trident programme's cost had already been incurred. Once he became prime minister, in keeping with the idea that Trident should genuinely be a “minimum” deterrent, Mr Blair reduced the number of warheads carried by each missile and put the one boat that would always be patrolling on notice to fire within days rather than minutes. Since then, the missile subs have remained not just out of sight, but also out of mind. That is where the government would like them to stay.

It is awkwardly apparent, however, that the two assumptions on which the case for the British nuclear deterrent has always rested look flimsier in the aftermath of September 11th and the Iraq war. The first was that nuclear weapons were the ultimate insurance policy—that even the most potent aggressor would think twice before attacking. The second was that Britain would lose influence if it ceased to be a nuclear power.

Today's international terrorists are unlikely to be deterred by nuclear weapons; indeed, they might positively welcome the catastrophic political consequences of provoking a nuclear response by a western country. Rogue states with nuclear arms pose a different sort of threat, but it is hard to imagine Britain attempting to deal with a nuclear delinquent without the overwhelming might of America by its side.

Britain's unloved nukes

Politically, the fact that the British deterrent has relied heavily on technical assistance from America has long been a problem. That reliance has made Trident and its predecessors more cost-effective, but the deterrent has never been an expression of patriotic pride in the way that France's nuclear forces have been for the French. Critics claim that it is not really independent, and that the need to keep the Americans willing to supply vital components has compromised Britain's freedom to act internationally in its own interest. Woundingly for Mr Blair, some people in his party are keen to depict British support for America in Iraq as a down-payment on the heir to Trident.

There is no chance that either Mr Blair or any successor will take Britain out of the nuclear business. But there is a limit to how many rows Mr Blair can have with his party before he goes. Don't be surprised if the government goes on “considering its position” until the very last moment and a bit beyond.

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A success story

Mar 16th 2006
From The Economist print edition

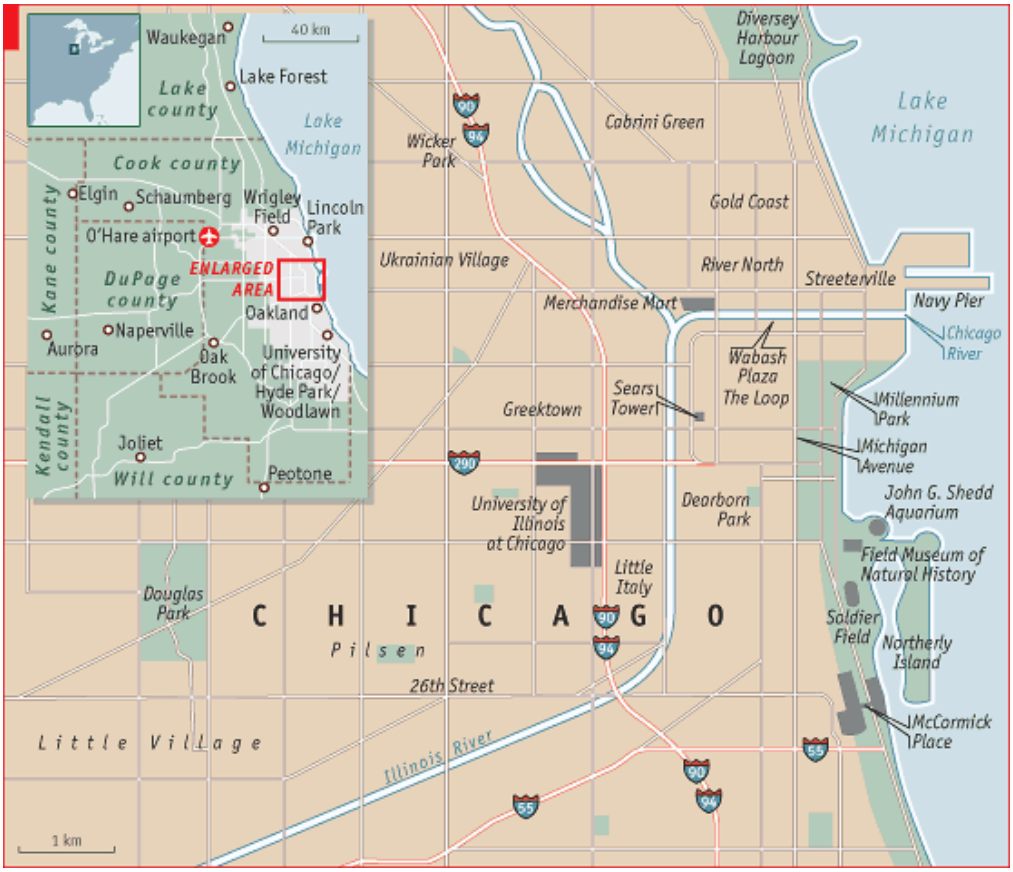
Alamy

Chicago has come through deindustrialisation looking shiny and confident, says John Grimond. Can other rustbelt cities do the same?

APPEARANCES often deceive, but, in one respect at least, the visitor's first impression of Chicago* is likely to be correct: this is a city buzzing with life, humming with prosperity, sparkling with new buildings, new sculptures, new parks, and generally exuding vitality. The Loop, the central area defined by a ring of overhead railway tracks, has not gone the way of so many other big cities' business districts—soulless by day and deserted at night. It bustles with shoppers as well as office workers. Students live there. So, increasingly, do gays, young couples and older ones whose children have grown up and fled the nest. Farther north, and south, old warehouses and factories have become home to artists, professionals and trendy young families. Not far to the east locals and tourists alike throng Michigan Avenue's Magnificent Mile, a stretch of shops as swanky as any to be found on Fifth Avenue in New York or Rodeo Drive in Beverly Hills. Chicago is undoubtedly back.

Back, that is, from what many feared would be the scrapheap. In 1980, when *The Economist* last published a survey of Chicago, it found a city whose “façade of downtown prosperity” masked a creaking political machine, the erosion of its economic base and some of the most serious racial problems in America. There followed an intensely painful decade of industrial decline and political instability during which jobs, people and companies all left Chicago while politicians bickered and racial antagonisms flared or festered. Other cities with similar manufacturing economies, similar white flight and similar problems of race and class looked on in dismay. If Chicago, the capital of the Midwest, the city of big shoulders, the city that works, that toddlin' town (few places have generated so much braggadocio), were to descend into rust-bound decay, what chance was there for Pittsburgh, Cleveland, St Louis, Detroit and a score of smaller places?

Chicago's revival should not be judged merely by the manifest sparkle of the Loop and such districts as River North, the Gold Coast and Streeterville. A more telling indicator is the growth of population recorded in the most recent (2000) census: an increase of 4.0% for the city since 1990 (compared with 3.9% for Minneapolis, and losses of 5.4% for Cleveland, 7.5% for Detroit and 9.6% for Pittsburgh). Other signs of economic vigour include the arrival of Boeing, which moved its headquarters from Seattle to Chicago in 2001, the growth of the futures and derivatives markets embodied in the Chicago Mercantile Exchange and the Board of Trade, and the decision to expand O'Hare to ensure it keeps its place as the busiest (depending on the measurement) airport in the country.



Just as significant have been some of the events that have not happened. For 21 years after 1955, Chicago was run by Richard Daley senior, a machine politician of the old school whose style was already looking anachronistic when his police enthusiastically beat up dissenters (as well as journalists and bystanders) at the Democratic convention in 1968. By the time of his death in 1976, he looked like a throwback to an earlier age. Despotism, however, was then replaced by factionalism and racism, and when Chicago got its first black mayor, Harold Washington, in 1983, he was rendered all but impotent by the implacable hostility of 29 of the council's 50 aldermen. The squabbling earned the city the title of “Beirut on the lake”.

Since 1989, though, relative harmony has reigned under a second Mayor Richard Daley, who has skilfully modernised his father's approach to government, embracing rather than suppressing opponents and working with prominent businessmen to improve life in the city. Although the whiff of scandal has latterly been swirling through the ranks of his administration, most of the headlines have been about policy decisions, not political deadlock. And no wonder: many of the decisions, especially those concerning housing, education and the environment, have been bold, earning the mayor plenty of criticism but probably more approval.

So Chicago seems to have weathered its period of deindustrialisation and emerged looking pretty robust. Other cities still groping for life after manufacturing death and trying to restore hope to their citizens and to the benighted neighbourhoods in which they live would do well to see what they can learn from Chicago's experience. This survey will try to do the work for them. It will examine an American success story. Is it as good as it seems? How much of it depends on Chicago's peculiar circumstances? How much could be repeated elsewhere? And what happens next?

*The greater Chicago area consists of six Illinois counties: Cook, DuPage, Kane, Lake, McHenry and Will. The city itself lies entirely within Cook county, but makes up little more than half its population. The Census Bureau's Chicago-Naperville-Joliet metropolitan area includes parts of Indiana and Wisconsin. In this survey, the term Chicago means the city alone.

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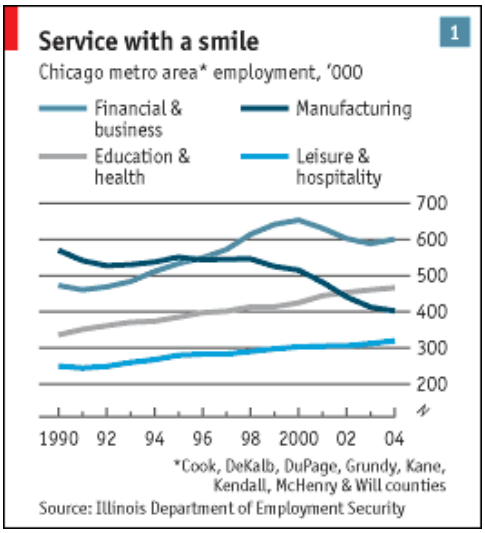
Brawn yields to brains

Mar 16th 2006
From The Economist print edition

To natural assets add art, learning and fun

HAPPY cities, unlike happy families, do not all resemble one another, and Chicago has several happiness-inducing features that other cities would be pushed to emulate. Omaha and Indianapolis, for instance, can hardly pick themselves up and alight on the shores of an inland sea the size of Lake Michigan. Pittsburgh is not well placed to become a way-station port between the Atlantic and the Mississippi river. Louisville is not next-door to the richest topsoil in the world. In other words, Chicago owes much to its position.



It was not, however, immutably ordained that Chicago would become the capital of the Midwest. Yes, it provides a waterway from the Great Lakes to the Mississippi, and thence the Gulf, but that owes much to the canal, finished in 1848, that links the Chicago River to the Illinois River. And yes, the nearby soil of north-eastern Illinois is indeed the best in the world, but soil is not everything. In fact, Chicago was built on a swamp and, at the start of the 19th century, Milwaukee, to the north, had a better natural harbour on Lake Michigan while St Louis, on the banks of the Mississippi, was a more obvious gateway to the West. Both were then bigger than Chicago.

It was the agency of man that exploited Chicago's geographical advantages—by building canals; by reversing the flow of the Chicago river to flush the city's cholera-carrying effluent away from the lake and down to St Louis; by jacking up entire rows of buildings to raise them above the slurry that choked the streets; and, crucially, by making Chicago the only rail terminus for cross-country travel. A town of 20,000 souls with not a mile of railway in 1847 had ten years later become the centre of the country's entire rail system. By the end of the 19th century it had a population of 1m, surpassing all others in the United States except New York. To this day, all six of America's class-1 railways have their terminus in Chicago.

The antitrust laws that stopped any one railway from carrying goods from coast to coast ensure that Chicago is still the place where freight is transferred to other carriers. Logically, St Louis would have made a better transfer point, but the people there were loth to pay for railway bridges across the Mississippi, so Chicago grabbed its chance and became the nation's entrepot.

Nowadays, freight also moves by air, as do people, and in this too Chicago has been both lucky and clever. Lucky, because lying roughly in the middle of the country, it is an ideal place for Americans to change planes and then, if they wish, to fly elsewhere. Clever, because lots of other cities could serve the same ends, but only Atlanta's Hartsfield-Jackson is at present a rival to O'Hare.

O'Hare invented parallel take-off and landing, allowing aircraft to come in two by two. As the boosters love to point out, it now handles some 3,600 flights a day, with non-stop services to 46 cities abroad and over 130 in the United States. Uniquely, it is a hub for two big airlines, United and American. Even though one has teetered on the brink of bankruptcy and the other has emerged only last month, these airlines between them carry over 80% of the airport's passengers.

Lying almost entirely within Cook county, O'Hare is responsible for more jobs in Illinois than any other entity. It is, however, at capacity. In recognition of its importance to the economy, and over the protests of deafened and suffocating local residents, the airport is now being enlarged. The expansion, it is said, will increase traffic, reduce delays, create 50,000-195,000 jobs (the range is elastic) and cost $6.6 billion, nearly all raised through passenger, gate and landing fees, not taxes. Since the city's other airport, Midway, has recently gone through an $800m modernisation, Chicago is unlikely to lose its place as the country's main aviation crossroads.

It also claims to be a different sort of crossroads, the place where most of the advanced telecoms networks in the region connect to a single internet exchange point, the world's largest. The flow of information moving through this “network access point” is measured in terabytes per day. Chicago also has a co-operative interconnection point that allows universities, research institutes and various consortia to link up in myriad ways. Fibre opticians salivate

at the thought of all the rail tracks waiting to be threaded together with their magic yarn, and already several laboratories and universities are connected by I-WIRE, a 225-mile (360km) optical-fibre network that is in turn linked by TeraGrid to a supercomputer in California. TeraGrid holds the promise of offering vastly more connections in all sorts of other places. And Chicago is also home to Starlight, a major international communications exchange for the next internet generation, linked to counterparts in 14 other cities round the world.

This technological filigree is not in Chicago merely because of the city's position, but that position has helped, if only by bringing some companies that depend on cheap and efficient communications. This part of Illinois, unlike California, is geologically stable and, unlike New York or Washington, it is thought to be relatively safe from terrorism. Those are two reasons, in addition to the familiar one of centrality, why Chicago has become the disaster-recovery centre of North America, the place where companies keep their records, usually duplicated in two places six to 20 miles apart (close enough to be convenient, but far enough away to make it likely that if one is put out of action, the other will remain unaffected).

Two other natural advantages, crucial to Chicago's prosperity in the past, still play an important part today. One is its proximity to the agricultural heartland of America. The stench of the stockyards no longer wafts across the southern reaches of the city, but Chicago remains the place through which much of the Midwest's produce passes, and where farm commodities are bought and sold. Moreover, the markets that once dealt in eggs and cheese now deal in futures and options based on interest rates, foreign exchange and all kinds of other things. As the mayor likes to remark, the hog butcher to the world has become the world's risk manager.

Chicago is also close to an abundance of coal (to the south) and large deposits of iron (to the north), which in days gone by gave it yet another proud title: steel capital of the world. That in turn was the basis of much of its manufacturing industry, which, despite its battering in the 1980s, still sustains 6,700 companies (employing 260,000 people) in Cook county, the county in which the city lies. Steel is now gone, and manufacturing cannot be the salvation of any high-wage economy, though it can still be a useful source of work for at least some people. But something new is needed too—and perhaps it has come, as the following tale suggests.

It is said, with perhaps more imagination than truth, that in the 1970s a group of violinists, on tour with the Chicago Symphony Orchestra under Sir Georg Solti, arrived at a hotel in Italy. The receptionist was visibly terrified. When two of the performers happened to open their violin cases, however, his demeanour changed to a smile of welcome: the cases contained not tommy guns but “real violins”.

A lot of night music

“Real Violins” was the name given to a documentary film of the tour. It is also part of the title of a forthcoming book by Terry Nichols Clark, of the University of Chicago, about the creation of the post-industrial city. The episode of the real violins, he argues, can be considered the moment when Chicago started to put behind it its reputation for meatpacking, steelmaking and gangland killings *à la* Al Capone, and gained a name for itself instead as a centre for music, theatre, the arts and entertainment in general. By 2000, says Mr Clark, entertainment was Chicago's main industry. Richard Lloyd, of Vanderbilt University, argues in his book “Neo-Bohemia” that a new urban culture now prevails in places like Chicago's Wicker Park district, in which the locals consume as though they were tourists and work as though they were providers of tourist services.

Here, then, is a clue to ways in which rustbelt cities may be able to reinvent themselves: create new industries based on fun and games—call them culture, if you prefer—and certainly exploit whatever is already in place. Chicago is lucky in this respect; it has had superb art in huge quantities ever since the end of the 19th century.

After the great fire of 1871, which destroyed the homes of a third of the city's inhabitants, Chicago decided to rebuild itself in style. Architects such as Dankmar Adler, Daniel Burnham, John Wellborn Root and Louis Sullivan, making use of such innovations as steel, lifts and electricity, soon developed the skyscraper. These men, known as the First Chicago School, gave way to others, such as Frank Lloyd Wright, and then to Ludwig Mies van der Rohe and the members of the Second Chicago School, who gave way to people such as Helmut Jahn. With imaginative commissions from companies and tycoons, they have made Chicago architecturally the most interesting city in America.

In 1893 Chicago held a huge fair, the World's Columbian Exposition, ostensibly to celebrate the 400th anniversary of Columbus's arrival in the Americas but in reality to bind together the city's squabbling immigrants and fractious social groups with a bit of cultural adhesive. Even more ambitiously, it aimed to put the new city on the world map: a few years later the fair's director of works, Daniel Burnham, declared that Chicago would be “Paris on the Prairie”. The exposition's buildings turned out to be mostly neo-classical pastiche, but the fair did bequeath a sense of cultural pride and, more tangibly, the makings of a new home for the Art Institute. By the 1930s this had secured a dazzling collection of paintings, notably of impressionists and post-impressionists, though today it also has excellent American galleries, as well as good Asian and Middle Eastern artefacts. The lure of looking after such treasures was enough to bring James Cuno back to Chicago in 2004 after a short sojourn at the Courtauld Institute in London.

There are plenty of other ways, too, in which Chicago excels in the arts. The Symphony Orchestra, just losing Daniel Barenboim after 17 years as its director, is superb. The Lyric Opera, if not quite as good, is at the top of the second rank. The Joffrey Ballet has found its feet, appropriately, after the slightly unsteady moment that followed its move from New York in 1995. Chicago's theatre may be better than any other in America: the Steppenwolf and Lookingglass companies regularly carry off prizes, and a profusion of fringe, garage and one-room theatres flourish alongside bigger establishments. Jazz, though not played quite as inventively as it was when Louis Armstrong was making the South Side swing in the 1920s, is still alive and well. And the blues are sung in about 60 clubs all over town.

And then there is sport: for baseball, the Cubs in their unreconstructed Wrigley Field, or the White Sox, winners of last year's World Series, in their revamped (but sterile) Comiskey Park, now unromantically renamed US Cellular Field; for football, the Bears in their controversially rebuilt Soldier Field; for ice hockey, the Blackhawks; for basketball, the Bulls.

Another inheritance that Chicago has exploited is its places of learning, healing and research. These do not quite fall into the category of entertainment, but they too depend more on human talent and ingenuity than on pig iron, steel mills or production lines—and the Midwest has a good supply of them. Chicago's are among the best, starting with the University of Chicago, whose 78 Nobel prize-winners put it second only to Cambridge in that ranking of achievement. Though its proponents of the dismal science, such as Ronald Coase, Milton Friedman and George Stigler, have earned it wider fame in recent decades, the university has produced just as many natural scientists of distinction.

It was in a University of Chicago squash court that Enrico Fermi set off the first controlled nuclear chain reaction in 1942. The metallurgical laboratory in which he then worked is now the Argonne national laboratory, which produces the world's brightest X-rays and builds research facilities beyond the budget of any single university. This, the Fermi National Accelerator Laboratory in the high-tech corridor to the west of Chicago, and Northwestern University in nearby Evanston, together attract scientists from all over the world and, it is hoped, will help make the city a centre for nano- and other kinds of technology.

Chicago is not alone in having excellent universities, hospitals and research institutions. The region holds at least a dozen of the best: the Universities of Chicago, Illinois, Indiana, Iowa, Michigan, Michigan State, Minnesota, Northwestern, Ohio State, Penn, Purdue and Wisconsin-Madison, which together make up the Committee on Institutional Co-operation. These, says James Duderstadt, a former president of the University of Michigan, could provide the basis for a new prosperity, especially for his own car-crashed state.

For other states less well-endowed, Chicago can offer hope of a different kind: not so much the example of its excellent restaurants or its vast convention centre, McCormick Place, but that of its Navy Pier. This excruciatingly humdrum collection of attractions is Chicago's strongest magnet. If a ferris wheel and a putting green on stilts can draw twice as many visitors each year as the Grand Canyon, the possibilities for Detroit should be boundless.

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Globocity

Mar 16th 2006
From The Economist print edition

Well, up to a point

AP

Openly crying out to the world

CHICAGO'S claim to have cracked the problem of post-industrialisation rests on something more than the development of entertainment and “knowledge” industries: it is now a “global city”, say a variety of onlookers. They include not just boosters but businessmen, analysts and such academics as Saskia Sassen, of both the University of Chicago and the London School of Economics, and author of “The Global City”.

Some of the evidence seems dubious. Over a fifth of Chicagoans are immigrants—but that is also true of Fresno or Oakland. McDonald's and Motorola, two Chicago companies, are indeed household names around the world. But then most big cities are home to some multinationals, and in fact both these companies have fled to the suburbs.

A more obvious claim would be that Chicago, or rather Illinois, has gone national: as Rick Mattoon of the Chicago Federal Reserve points out, the composition of the state's economy in 2003 almost exactly mirrored that of the country as a whole, whereas other Midwestern states such as Wisconsin were still much more dependent on manufacturing. That is not to say that manufacturing is dead in Chicago. Midwestern manufacturing has to some extent coagulated around Chicago as companies elsewhere, faced with the need to retrench and reorganise, have chosen to move to the regional capital. However, a part of Chicago's success in going national reflects its ability to detach itself from the Midwestern economy, and for some that has meant plugging into the wider world economy. In this sense Chicago is indeed a global city.

One example of this was the decision last October of Mittal Steel USA to put its headquarters in downtown Chicago rather than north-west Indiana. This had little to do with the coagulation of manufacturing: although Mittal employs 21,000 workers in the United States, it will have only 200 in its Chicago HQ. But Mittal USA's parent company, based in London, is the biggest steelmaker in the world, and Chicago sets much store by landing such catches—with bait, in this case, according to Bill Testa of the Chicago Fed, of $40,000-50,000 per job in tax incentives.

A bigger fish was Boeing. Some suspect that Boeing's decision to move from Seattle was at least partly prompted by the thought that in time it would want to cut its (expensive) Washington state workforce in favour of production abroad, and that would be easier politically if the headquarters were already several states away. Yet Boeing could have gone anywhere. That it came to Chicago, bringing 400 jobs, was surely related to the city's “global” characteristics—and the tax incentives.

The intense wooing of Boeing certainly made much of Chicago's easy access to global markets and financial centres: World Business Chicago, one of the local booster groups, immodestly called the city the “Centre of the World”. It cited the 100-plus languages spoken in Chicago, the 26 ethnic groups to be found there, the 1,600 foreign-owned firms, the 42 consulates, the great hotels, the culture, the universities, the hospitals, the golf clubs, the 16 miles of beaches, the bike trails, and no doubt all these helped sway the decision. Yet none would have counted for much without an airport like O'Hare, which is genuinely a global gateway.

Beyond pork bellies

Chicago's other great claim to global-city fame rests on the dominance of its exchanges in the world trading of futures and derivatives. When the Chicago Mercantile Exchange started trading derivatives in 1972, almost everyone, including *The Economist*, pooh-poohed the idea. That was a mistake. It was a year after the dollar had been detached from its gold backing and, as Leo Melamed, the Merc's then chairman, was quick to see, a floating dollar meant multiple uncertainties that businessmen would want to hedge. Mr Melamed also saw that selling the future price of dollars was much like selling the future price of pork bellies. Thus was born the International Money Market, the world's first financial futures exchange, which was then taken over by the Merc. The Board of Trade followed suit five years later with trading in Treasury-bond futures. New York did nothing till the mid-1980s, when the New York Futures Exchange was started. It lasted about three years. The New York Commodities Exchange also tried and failed, as did Eurex, a German-Swiss affair.

Chicago's exchanges have kept their position as the leaders in the world's trading of financial derivatives. They lost market share in the 1990s, but have bounced back recently, thanks partly to their ability to trade almost round the clock, partly to a readiness to adopt electronic trading: today only about 20% of the Merc's contracts are orally traded by “open outcry” in the pits. In 2004, 787m contracts, with a notional value of $463 trillion, were traded on the Merc. Net revenues were $734m.

With the growth of the exchanges has come the growth of other financial and legal services. Chicago had no foreign banks in 1973; soon it had over 100; now, of the abundance of banks in the city, almost none is locally owned.

The exchanges are crucial to Chicago's economy. They draw to the city companies with a need for the sort of financial services provided by the exchanges' ancillary industries; and they help to free the city from its dependence on the Midwestern economy. However, experience shows that they cannot be replicated.

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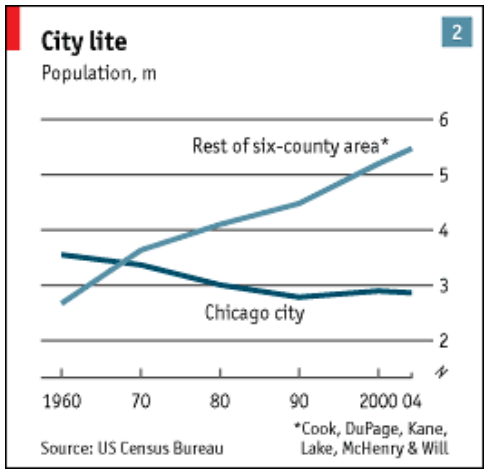
No little plans

Mar 16th 2006
From The Economist print edition

But business comes out on top



RUNNING Chicago is no easy task. Even knowing who is responsible for what is difficult enough. The metropolitan area covers six or nine Illinois counties, depending on where you draw the lines, and more if you take in the sprawl in neighbouring Indiana and Wisconsin. The smallest of these areas, the six-county one, encompasses (at a recent count) some 113 townships, 272 municipalities, 303 school districts and 587 special-purpose governments, including individual authorities for such matters as cemeteries, street lighting and TB sanatoria—and, it is often pointed out, 13 mosquito-abatement districts.

The main source of funds for all local governments is the property tax. From a financial point of view, the ideal shop is Tiffany's, and the ideal householder one with no children and a hugely valuable property: that means few people to provide for and lots of tax revenue. Schools are largely dependent on the property tax, though the state gives enough to bring the poorest schools up to a low minimum standard. The result is a huge discrepancy in school financing between rich and poor districts.

A system involving nearly 1,300 units of government, serving some 8.5m people, is bound to be fragmented and inefficient. Worse, the dependence on the property tax encourages these mini-governments to compete with each other for expensive developments, which in turn reinforces white flight and suburban sprawl. The suburbs generally have little love for the city itself, often overlooking the benefits of their proximity to it while bemoaning the traffic, the pollution, the aircraft noise and above all any designs on their tax base.

To his credit, Mayor Daley has seen the need to overcome suburban suspicions. In 1997 he set up the Metropolitan Mayors Caucus, which brings together the 272 mayors in the region. It is recognised that they will never all agree on many contentious items, so they do not discuss topics like the expansion of O'Hare, but stick to those where the common interest is clearer, such as ground transport, utility regulation and, recently, taxes and housing. In this group Mr Daley is simply one of 272 and must put his hand up to catch the chairman's eye, just like the others.

This may ameliorate some of the system's defects, but it does not make the structure any more rational. That task falls to independent organisations like the Metropolitan Planning Council and Chicago Metropolis 2020, which try to reduce the frictions between the region's governments and encourage co-operation on everything from taxes and freight to Latino housing and children's early learning.

Similar outfits exist in other cities, but Chicago's have qualities all of their own. The story goes back to the city's origins as a town built for, and by, business. Chicago's expansion in the 19th century, when the population rose from under 30,000 in 1850 to 300,000 in 1870 and 1.1m in 1890, was driven by capitalists red in tooth and claw. It was, at the time, the fastest urban growth in history, and it was largely unplanned. The fire of 1871 gave the chance to bring some order, but development was determined mainly by the practical designs of engineers hired by businessmen.

By the end of the 19th century, though, the buccaneering tycoons who ran Chicago began to get grander ideas. They had travelled to Europe and seen, for instance, the 1889 World's Fair for which the Eiffel tower was built. Civic pride began to stir in their breasts, even as they were coming to see that raw capitalism untempered by philanthropy might prove unsustainable. The upshot, in 1909, was a decision by the Commercial Club, which had been founded by 17 businessmen in 1877, to commission one of its members, Daniel Burnham, to draw up a plan to make Chicago “one of the great cities of the world”. Burnham, a self-taught architect, had by this time established his reputation through his oversight of the 1893 World's Columbian Exposition. Now, with his collaborator, Edward Bennett, he was to design a scheme for the “Metropolis of the Middle West”. The plan, which drew much of its inspiration from Paris, formed the basis for large parts of present-day Chicago.

Chicago has changed over the years. Politics has become more democratic and business less feral. But it is no exaggeration to say that, when the place works—and for years Chicago has taken pride in being “the city that works”—businessmen and politicians pull in the same direction. Anton Cermak, mayor in 1931-33, was the first

politician to see the force of this, and went on to create what Paul Green, of Roosevelt University, calls a “seamless continuum between business and politics” to deliver the goods. The continuum continues, albeit nowadays with seams.

Out of chaos

It is on one of those seams that Metropolis 2020 is placed. It came about because, ten years ago, the Commercial Club decided that Chicago should mark the millennium with another plan, this one for the entire metropolitan area. It formed six committees of its members who themselves drew up reports on education, housing, transport and so on. Four years later they had come up with one that consciously echoed Burnham's in 1909, not least his injunction: “Make no little plans. They have no power to stir men's blood.” A decision to set up an independent organisation to translate the recommendations into practice resulted in Metropolis 2020.

Too much can be made of planning in Chicago: in many ways the city is a monument to the creativity of chaos. But the influence of business is hard to exaggerate. The people who run the place could, and sometimes do, fit into one room. Some are politicians; some are academics; some are heads of museums or hospitals or outfits like the Chicago Council on Foreign Relations or the MacArthur Foundation. But most are in business.

Indeed, if you are the boss of a big business anywhere in the Chicago area, you are expected to take an active part in the civic life of the city. Accordingly, the same names appear over and over again on the boards of universities, hospitals, museums, orchestras, opera companies and local charities. More to the point, business is almost always an active participant in any public endeavour, from school reform to the creation of Millennium Park, the brand new $475m park-cum-auditorium-cum-ice-rink-cum-fountain-cum-you-name-it just north of the Art Institute.

O'Hare is one of the best examples. No one knew better than Chicago's businessmen, who travel constantly, that the city's main airport had hit capacity in the 1990s. It was busy enough when the weather was fine; when it was not, the delays were awful. Rain or snow meant the closure of one runway and take-offs and landings reduced by a third. But Illinois's Republican governor, Jim Edgar, reflecting the views of many voters living near the airport, was adamantly opposed to any more runways, and Mayor Daley did not much care either way. The Commercial Club's civic committee persuaded a consultancy to conduct a study which showed the employment and other benefits of expansion as well as the costs of doing nothing. Two members of the committee—Eden Martin, a lawyer, and Lester Crown, of Material Service Corporation—started lobbying.

That turned round Mr Edgar and then his successor, Governor George Ryan, but not the mayor. Mr Daley, however, had his own team at work, which in due course produced a far more ambitious scheme than anyone had dared hope for. Encouraged, the civic committee intensified its lobbying efforts, making sure that the case for expansion got constant coverage in the local papers over a period of three or four years. Eventually, the head of the DuPage county commissioners abandoned his opposition, and then all but a few diehards gave up. The city won a court case allowing it to buy land compulsorily, but has been delayed by another one involving a claimed violation of religious rights on Judgment Day should a cemetery also be swallowed up by the airport. Still, construction is now under way, and a new runway is all but certain to open next year.

Thanks to business, O'Hare is likely to remain the country's biggest airport. That is the way things get done in an irrationally organised megalopolis.

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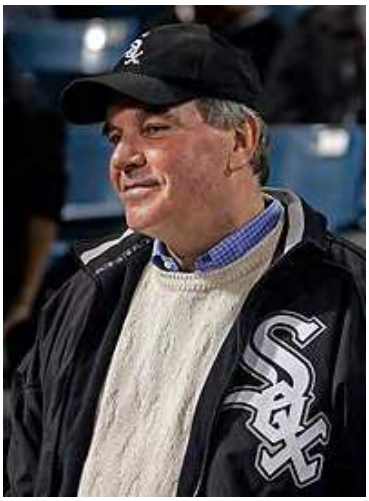
Daley city

Mar 16th 2006
From The Economist print edition

The benefits, and drawbacks, of a benign dictatorship

AP



It's not the stockyards that smell

IF THERE'S no business like Chicago business, there's certainly no politics like Chicago politics. As in most big cities in America, most of Chicago's voters see themselves as members of a group—white, black, Latino. And no big city in America was ever so segregated, not just between black and white, but between Croat, German, Irish, Italian, Jew, Pole, Ukrainian and the rest. Until the 1960s, many houses carried covenants denying their owners the right to sell the property to blacks, who were thus largely confined to the South Side. But the whites who clustered together with their ethnic cousins did so by choice. So Chicago has never been a melting-pot. Rather, it has been a city of neighbourhoods, each of which has kept some of the character of the old country.

More mixing takes place now, and blacks, as well as Latinos, have become more dispersed, but several wards remain 85% black or 85% white. And now new lines have emerged: between Mexicans and other Hispanics, between Africans and other blacks, between poor and better-off African-Americans, between recent immigrants, Asians, say, and those whose forebears arrived long ago.

Ethnic ghettos gave Chicago factionalised politics. Business gave it an institutionally weak mayor and strong aldermen. Prohibition gave it Al Capone and corruption on an industrial scale. The mixture reached a nadir of awfulness in 1927-31, the final term of Mayor Big Bill Thompson. A solution was found by the redoubtable Mayor Cermak. He brought Chicagoans together—his funeral, says Professor Green of Roosevelt University, was presided over by a rabbi, a Catholic priest and a Presbyterian minister—and ran the Democratic Party as he ran the city, as a business. Thus did machine politics come to Chicago.

Cermak was murdered, but the value of the multi-ethnic machine was not lost on a later mayor, the first Richard Daley, who used it to run Chicago from 1955 to 1976. The essential elements of the system were to encompass as many people as possible, keep them happy through patronage and other favours, ruthlessly punish dissenters—and make sure the city ran reasonably efficiently. The system had one large merit: the city worked.

Most of the 13 years after Daley senior's reign were characterised by racial antagonism, and they were not happy ones for Chicago politics. In 1989, though, a second Richard Daley became mayor, offering emollience, stability and managerial efficiency. He, too, was inclusive and, in the subsequent 17 years, has been adept at building a coalition that includes members from every group. Like his father, Mr Daley knows the value of patronage and precinct organisations.

He also knows the importance of making sure that the city gives a share of its contracts to black firms. He knows, too, the power of the Latino vote, which could thwart all his doings if it swung against him: hence his nurturing of the Hispanic Democratic Organisation, about a third of whose members are on the municipal payroll. Other ethnic groups are represented in other “political armies”, many of whose members also work for the city. With the benefit of such knowledge, Mr Daley has largely tamed the council, which paralysed Mayor Washington, though there has been some recent dissent.

Three wishes

The mayor has put his political dominance to good use, devoting his energies to three issues in particular. The first is the appearance of Chicago, a city long famous for marvellous architecture but also for blitzed neighbourhoods, industrial wastelands and urban dereliction. No more. Flower beds now run alongside about 70 miles of streets. New patches of greenery soften and brighten the concrete townscape, not just in the centre, where Millennium Park and Wabash Plaza stand out, but in the neighbourhoods too, where the city was found to own about 30,000 vacant lots, and where 100,000 trees had been lost in the ten years or so before Mr Daley came to office. The mayor is still far off his stated aim of replacing them fivefold, but he has planted about 200,000.

The main point was to cheer the place up, but the mayor is a convinced environmentalist, too. So City Hall now has

a micro-prairie on its roof, complete with creeping succulents and waving grasses. The prairie absorbs rain that would otherwise contribute to flooding and, on a scorching summer's day, lowers the roof's temperature by about 50 Fahrenheit degrees (28 Celsius degrees), thus tripling its life. About 150 other buildings, including those of Apple Computer, Target and a prominent McDonald's, have followed suit. The city provides all sorts of incentives to encourage acts of greenery, and sets green examples, such as using cars that run on compressed natural gas or ethanol and heaters that run on recycled oil.

The mayor's second big endeavour, the transformation of Chicago's public housing, has proved much more difficult. Among the main reasons behind the drift to the suburbs, reckoned Mr Daley, was housing—the price of it, the state of it, the fact that much of it was crime- and gang-ridden. Mixed areas like Hyde Park, round the University of Chicago, and Dearborn Park, just south of the Loop, show that not all Chicagoans want to live in ethnic ghettos, and the success of the new residential buildings in the south Loop and other central areas suggest that many people prefer flats or condominiums to single-family houses in the suburbs. But too many people, especially black people, have been trapped in public housing so badly administered that in 1996 the federal government had to take it over.

Mr Daley's solution, if such it is, has been to get the federal government to give responsibility for public housing back to the city on certain terms: the huge blocks that had come to be considered human warehouses would be torn down and the housing authority would build smaller units and developments throughout the city for people of different incomes: some at the market rate, some moderately subsidised and some for the poor, who are eligible for federal rent vouchers.

So far, 16,000 units of public housing have been dismantled, and 9,000 still await demolition. In many respects, the scheme has proved a success. Such notorious eyesores as Cabrini Green have gone. But there are complaints. Some people have been unable to find, or to afford, new housing nearby. Some have been dispersed. And many have been ineligible for rehousing, usually because of a criminal conviction. Perhaps inevitably, there have been cries of gentrification.

The mayor's third big undertaking is the reform of the school system. This was a cross he did not have to carry: education was not traditionally a city responsibility, and when the state's Republicans agreed in 1995 to pass it to Mr Daley, they thought they were giving him a poisoned chalice. But it has not turned out that way, partly because the mayor was willing to experiment—and never mind the objections of the teachers' unions—and partly because business agreed with him that radical reform was essential. Chicago's schools are still far from perfect but, by most reckonings, they are getting better.

About 100,000 children in Chicago attend the schools run by the Catholic archdiocese, but they do not have to be Catholics. Their parents, or the federal government, if they are eligible, pay tuition fees. Many others go to private schools. Those who opt for the public system, which is about 40% black, 40% Latino, have a choice. They can try for one of the “selective enrolment” schools, which choose their pupils after a test. Four of these schools are among Illinois's seven best. Alternatively, they can try for a magnet school, many of which have excellent results—but also an entrance exam. Some, though, choose their pupils by lottery.

Charter schools are a third option for some lucky families. There are about 30 of these so far, serving about 15,000 children, with another dozen due to open this year. They are “public” but outside the bureaucracy, so their principals can accept any child they like. They can recruit non-union teachers, and set their own hours and terms. Moreover, they can raise private funds to supplement the standard amount that the city gives them.

Charter schools have aroused much interest among Chicago's civic-minded businessmen. The civic committee of the Commercial Club likes the idea of competition among schools. It also applauds the mayor's determination to open 100 new elementary and high schools by 2010 and is raising $15m-20m in support. Several companies, as well as the University of Chicago, have “adopted” a charter school. Their computer staff go and help out; secretaries put together a cookery book to raise money; and so on. The enthusiasm on all sides, except that of the teachers' unions, is palpable.

But the mayor's initiatives will not cure Chicago's schools of all their ills. The dropout rate in the public school system is about 40% (over the final four years), and even those who graduate are often unprepared for even a two-year college course: 60-70% habitually fail the reading test, even more the maths test. Magnet schools without entrance exams do not seem particularly successful. The staff turnover at charter schools seems higher than elsewhere, partly because their teachers are paid less than those in the unionised part of the system. Yet a recent study of 144 inner-city elementary schools showed “substantial and sustained improvement in reading test scores” over the past 15 years. Education would, it seems, be in an even weaker state without the mayor's reforms.

The dark side

Mr Daley is a phenomenon: a white mayor running a city that is two-fifths black and a quarter Latino; a Democrat who works with, and has the support of, a business coterie that is mostly Republican; a successful politician who has no ambitions outside his own city; and the boss of a machine that ought to have rusted away long before his

father died.

Whoops. You're not meant to call Mr Daley's distinctly retro form of government a machine: that has connotations of corruption, and no one believes that Mr Daley is venal. Yet he presides over an administration in which patronage clearly plays a large part, in defiance of a federal court order known as the Shakman decree, which is the main anti-corruption instrument in Chicago. This decree prohibits the hiring of employees on the basis of their politics, except for a few people at the top whose job it is to set policy.

In truth, scandal has dogged Chicago's politics—and Cook county's, and Illinois's—for many years, and it certainly has not gone on holiday now. The latest episode began two years ago when the *Chicago Sun-Times* revealed a racket in which the city was apparently hiring trucks to do nothing. The head of the programme pled guilty to the ensuing federal charges (35 others were charged, of whom 23 also pled guilty). Investigations, led by a doughty federal prosecutor, Patrick Fitzgerald, continue into goings-on at City Hall.

Mr Daley is not directly implicated. But the scandal has now reached the heart of his administration, involving close colleagues, and his persistent avowals of “I don't feel personally responsible” have begun to ring hollow. The mayor is a former prosecutor himself and a man who is known for his intimate involvement in management. No one believes he has profited personally and most people have no wish to bring him down, but he is undoubtedly tainted. Five years ago it was said that he could keep his job for life. Now there is talk of the end of the Daley era.

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The Mexican motor

Mar 16th 2006
From The Economist print edition

Corbis

Latinos are now the region's biggest minority

CHICAGO'S recovery from decline is measured not just in jobs and dollars, but also in people. In America, at least, a city is considered moribund if its population is not growing. By that measure, greater Chicago is prospering; but the story is more complicated than it seems.

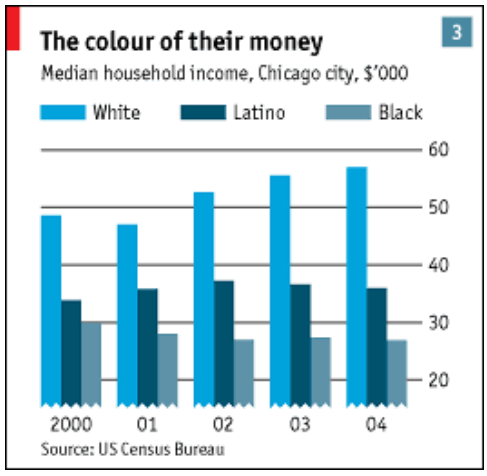
The 2000 census was greeted with delight by the city. It showed that, after decades of losing people both to the suburbs and to other parts of the country, it had increased its population by 4% since 1990. The vast conurbation around Chicago—what the Census Bureau calls the Chicago-Naperville-Joliet metropolitan area, which includes bits of Indiana and Wisconsin—had grown by 11.2%. And though the suburbs had been the big gainers (up 14%), even the cities (towns of over 100,000 people) in that conurbation had grown by 6.3%. Urban life was evidently flourishing.

The trend, though, has not been sustained. In 2000-04, the metropolitan area grew by just 3%, less than the rate of natural increase. The big towns lost population (by 0.1%), whereas the suburbs continued to grow (by 4.6%). Chicago itself shrank by over 1%.

The shrinkage in the towns would have been much greater, and the growth in the suburbs much smaller, but for one thing: immigration, nearly all of it by Latinos. Between 1970 and 2004, Latinos accounted for 96% of the growth of the six counties round Chicago. The average increase during the 1990s was 57,000 people a year.

The accompanying changes are already dramatic. In the city itself, more than one person in four is now a Latino, and Chicago has more Hispanics than any other city but Los Angeles. With such neighbourhoods as Greektown, Little Italy and Ukrainian Village, Chicago has never disguised its long history as a home for immigrants, many of whom cluster together for decades after their arrival. Native-born migrants have come, too, notably Midwesterners and black southerners, but for years the foreigners were mostly Europeans.

Many more where they came from



In the 1960s that began to change, and the trickle of Mexicans who had first arrived in the 19th century—Chicago's Mexican consulate was set up in 1884—began to turn into a flood. The points of entry for many are now Little Village and Pilsen, two neighbourhoods in the south-western stretch of the “bungalow belt” which were first settled by immigrants from, respectively, Germany and Bohemia, but which are now the heart of a Latino community of 1.6m. Four-fifths are of Mexican origin.

The economic consequences of this influx are huge. Though Latinos are individually poorer than other Chicagoans, their collective household income of $20 billion a year makes up nearly 10% of the six-county area's total. The sales-tax revenues generated in the shops of Little Village's 26th Street are, it is said, greater than those of any other retail corridor in Chicago but Magnificent Mile. Latinos are also a driving force in the region's property market.

Since 1990, the growth in the number of Latino workers has just about matched the growth in jobs in the region. And the numerical match has paralleled a geographical one: many Latinos go straight to the jobs, which are mostly in the suburbs, bypassing the inner city altogether. Thus one person in five in the six-county area is now a Latino,

making a living, likely as not, as a gardener, labourer, office cleaner or waiter. In the 1990s, the Latino population doubled in each of the five suburban counties around Chicago.

The region's Latinos are thus dispersed, yet even in the suburbs they tend to gather together in groups. They can be found living hugger-mugger in the older housing of the older towns, such as Aurora to the west, where the railways and manufacturing long provided employment, and Waukegan to the north. From these bases they may travel to work in other, more prosperous suburbs, such as fast-growing Naperville (next to Aurora) or posh Lake Forest (near Waukegan), but few can afford to live in such places. They may not be welcome, either. According to a study cited by Notre Dame University's Institute for Latino Studies, Latino-white segregation increased in the suburbs during the 1990s, even as it decreased slightly in the city.

Still, employers like Latinos. They work hard, and they can be paid at or below the minimum wage, especially if they are undocumented, as many may be. It is said that many jobs are never advertised: employers simply put the word out among their existing workers that they need more and, lo, more appear. This does not endear Latinos to some African-Americans, many of whom have trouble finding work. For their part, many Latinos feel excluded from Chicago's public housing, which was long almost entirely black, though it has recently become more open. And Latino children—who make up 38% of those in the city's schools (29% in the area's)—are often taught in badly overcrowded classes.

So far, despite a handful of aldermen in the city, a few officials in the suburbs and one Puerto Rican member of Congress, relatively few Latinos hold public office. That will no doubt change as more and more become politically active and as their children, nearly all of whom are American citizens, grow older. Latinos are already the biggest minority in the region, outnumbering blacks. As their numbers increase further, they will surely transform Chicago.

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The limits of renewal

Mar 16th 2006
From The Economist print edition

AFP

Easy living, but narrow shoulders, in the suburbs

Chicago's current success may be about as good as it gets

FOR many people Chicago is the quintessential American city, an extraordinary artefact in the middle of the heartland, where tall buildings reach for the heavens, overhead railways rattle above the sidewalks, politicians rule by machine and immigrants are fashioned into citizens of the world's first new nation. In terms of capturing the imagination, its only American rivals are New York and Los Angeles. Yet in one respect Chicago is more like other big American cities than it would like to be: its growth is in the suburbs, in towns like Waukegan, whose population increased by 26% in the 1990s, or Aurora (43%) or Naperville (48%). Chicago's rose by a mere 4% in the same decade, and has been falling since, whereas the suburbs have continued to grow. And beyond the suburbs are the exurbs. Drive west from the Loop, out past Naperville, through Aurora and eventually, just after Pioneers Village, you reach farmland—and a sign saying “Settlers Ridge, a true community, coming soon”. This is the future.

And it is not a bad future for the people there. Naperville offers good jobs, if you are qualified: Lucent (formerly Bell Labs) and BP (formerly Amoco) have research facilities there, and the city's 140,000 inhabitants—85% white—have a good college, a good hospital and one of the lowest crime rates in the country for a town of this size. They also have parks, golf courses, a new river walk, an “historic” downtown (according to the brochures) and good shopping. One magazine has named it the best place in the country to bring up children. Another puts it at number three for quality of life. Its public library has been judged the best in America for a city of its size. Elgin, to the north-west, has a professional symphony orchestra. Arlington Heights has a flourishing centre for music, dance and theatre. Schaumburg, the inappropriately named “village” of 75,000 that is now home to Motorola, has a department of cultural services responsible for the Prairie Centre for the Arts.

If Joel Kotkin, the author of “The City: a Global History”, is right, places like these will in future accommodate most of the affluent people who seek space, safety and a decent education for their children, and many migrants too. Does that suggest eventual implosion, or at least further decline, for Chicago?

Not necessarily. It does, however, suggest that the growth of Chicago's population may have gone about as far as it can go. No doubt improvements will be made—in education, housing, greenery, transport, you name it. No doubt more people will move to the centre. No doubt the civic zeal of business, the excellence of the universities, the vigour of the arts and the endeavours of all sorts of ordinary people will be mobilised to good effect. But the city's problems are still huge. Downtown, there is a beggar on almost every corner. Though many kinds of crime have fallen in recent years, there were still nearly 450 murders in the city in 2005, and gang-related crime is rife. So are drugs, especially among the poor.

That means, above all, among African-Americans. Many blacks have prospered in Chicago, but many more remain stuck in poverty. The problems of the city's housing authority and public schools disproportionately affect African-Americans. Research carried out in Chicago's Woodlawn and Oakland districts by William Julius Wilson led this eminent Harvard sociologist to conclude that what lay behind single parenthood and the many difficulties it involves in bringing up children was unemployment and the black culture of the inner city. Too often women will bear the child of, but not marry, an unemployed man. The child grows up surrounded by poverty, crime and drugs.

As an adult, he or she finds it hard to get work. The menial jobs are done by Latinos; the better-paid ones require an education; and those in the middle are vanishing. Manufacturing used to provide a good living for people without academic qualifications, and still does if you can get a job. But it is hard to send your child to college if you work at Wal-Mart, and harder if you are jobless.

In this thicket of predestined failure lie most of the difficulties of the inner city. Mayor Daley and his brothers-in-arms in business are doing their best to tackle it, but their best is unlikely to be enough. The city cannot rely on new migrants for its economic vigour; with a static or shrinking population, it needs productivity gains. But heroic optimism is needed to believe that these will come from the ranks of those currently unemployed, or most of their children.

Moreover, the Daley era is drawing to a close. With no obvious successor in sight and the likelihood of an eruption of rivalries, Chicago's politics may get nastier again. A coalition of some kind will be necessary, but a white-black-Latino amalgam as co-operative as that put together by Mr Daley seems improbable. And disaster might loom if the council were to start challenging the mayor at every turn.

Chicago still has lots going for it. As the capital of the Midwest, it can further develop the specialised services it supplies to the region. It can also exploit the advantages that enable it to plug into the global economy. It ought to be able to exploit better its great educational and technical institutions; a big national biotech gathering due to be held next month, BIO2006, may provide some opportunities for that. But it has not cracked the problem of inner-city poverty, nor the biggest social question of the age: how can an excluded social class find its way into the mainstream?

It still has plenty of lessons for other rustbelt cities. They can learn from Chicago's experiments with schools and housing. They can try to foster good relations between local government and local tycoons, and to reduce antagonisms with the suburbs, as Chicago has done. And they could certainly cheer up their streetscapes with flowers, trees and parks.

But Chicago, like almost all America's older cities, still faces the prospect of decline, or at best stasis, unless it can find the elixir of urban life—how to grow richer without growing bigger. Failing that, it must content itself with the knowledge that it has succeeded better in reversing decline than anyone else—and that its broad smile is even more attractive than its erstwhile broad shoulders.

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Mar 16th 2006
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For their help and kindness, the author would like to thank Gerald Adelmann, Veronica Anderson, Richard Babcock, MarySue Barrett, Frank Beal, Jennifer Buntin, Terry Nichols Clark, James Crown, Lester Crown, James Duderstadt, Jean Franczyk, Marshall Froker, John Gates, Laurie Glenn-Gista, Rodney Goldstein, Nick Goodban, Paul Green, Christie Hefner, Greg Hinz, Robin Hambleton, Rob Hoffman, Valerie Jarrett, Christine Jeffries, Sadhu Johnston, Joel Kotkin, James LaBelle, Linda Lentz, Richard Longworth, Don Lubin, David Lundy, John McCarron, Eden Martin, Richard Mattoon, Leo Melamed, David Moberg, Paul O'Connor, Andrew Patner, Raul Raymundo, Gill Ross, Carlos Sada, John Sandner, Saskia Sassen, Adele Simmons, Dick Simpson, Jay Stewart, Dan Swinney, Alysia Tate, William Testa, David Thigpen, Maria Choca Urban, Laura Washington, Charlie Wheelan, David Vitale

The following organisations and sources were also useful:

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Mar 16th 2006
From The Economist print edition

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Big media and the internet

Net dreams

Mar 16th 2006
From The Economist print edition

Reuters

Traditional media companies are making a huge push onto the internet

MARCH Madness starts this week in America, and for the rest of the month millions of basketball fans will watch the country's college teams dunk on each other, until the final of the men's national championship on April 3rd. CBS, a broadcast-television network, has shown the event since 1982—but this year it is conducting an experiment. As well as broadcasting the games on TV, it is streaming them live over the internet free of charge, accompanied by advertisements.

CBS's move is one of many recent efforts by traditional media companies to try to develop “new media” revenue streams. Music firms have sold their material online for a while. Newspaper and magazine publishers are busy trying to attract readers on the internet. But now the world's largest entertainment companies are rushing to distribute their video content online and, to a lesser extent, to the users of mobile phones.

Old media companies are also snapping up internet firms as fast as they can. Most of these are profitable, in contrast to the dotcoms of a few years ago—but only just. On March 6th NBC Universal, a media firm owned by General Electric, spent $600m on iVillage, a website for women which had a profit of $9.5m in 2005. Last year Rupert Murdoch's News Corporation spent more than a billion dollars buying barely profitable internet companies.

Has the industry gone as crazy as basketball fans in springtime? The answer is that traditional media companies have no choice but to experiment. They are in mature businesses, many of which are endangered by the internet and other technologies. Investors have sold down their shares. This week, Mr Murdoch warned in a speech in London that changing technology means that “power is moving away from the old elite in our industry—the editors, the chief executives and, let's face it, the proprietors.” Old media companies badly need to persuade the stockmarket that the digital era brings them opportunities as well as threats.

Desperately seeking digital revenues

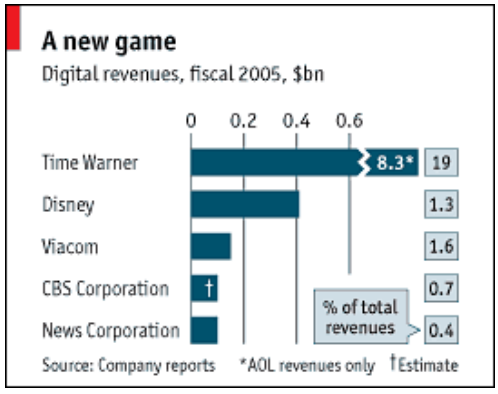
“Everyone's got a digital tsar now, or if they haven't, they're frantically searching for one,” says Peter Kreisky, a media consultant. Many large media firms have recently formed separate digital divisions. With the exception of Time Warner, which in 2000 merged with AOL, an internet-access firm, most of these contribute only a tiny slice of their parent company's revenues (see chart). But they are growing rapidly. Jessica Reif Cohen, a media analyst at Merrill Lynch, reckons that profits from online advertising and paid content could represent up to 8-9% of total earnings for Disney, Viacom and News Corporation in 3-5 years and considerably more for Time Warner, courtesy of AOL. The most obvious opportunity is to put the content they already own on new platforms. Media companies can charge people directly, or sell ads around it. In October last year Disney took the big step of allowing two of its hit dramas—“Lost” and “Desperate Housewives”—to be downloaded from Apple's iTunes download service on to

iPods for $1.99 an episode. Programmes from NBC and from Viacom's cable channels soon followed, and CBS has put two of its hits, “CSI” and “Survivor”, on Google Video Store, the search firm's new video service. Time Warner, Disney and Viacom have all started broadband channels.

Only a fraction of the media firms' video content is online, certainly, but every few weeks another slew of popular programmes makes the leap. In just a few years, says Michael Wolf, president and chief operating officer of MTV Networks, almost all the company's content will be available online and on several platforms. Because people in offices will be able to gain access to it, he says, “daytime will become the new primetime.” (For people watching March Madness at work, CBS has thoughtfully provided a “Boss Button”, which at a moment's notice calls up a fake spreadsheet.)

Shifting onto the internet will take time, because powerful forces are lined up against changes to video distribution, says Josh Bernoff, a television analyst at Forrester Research. Most important are huge concerns about digital piracy, although Apple and Google do seem to have eased those with digital-rights-management technology, which guards against unauthorised copying. Content owners also worry that putting their video online might mean that fewer people would watch programmes on TV, which is where they earn most of their advertising revenue.

And none of the conglomerates want to jeopardise the phenomenal profitability of DVDs. So far, Hollywood has barely allowed its films onto the internet, and certainly not before their release on DVD. But even that taboo may soon be broken. Amazon, an online retailer, is reportedly in talks with three Hollywood studios about a service that would allow people to download new movies at the same time as they come out on DVD.



Which of the big entertainment conglomerates is furthest ahead? That, of course, is fiercely debated by rival executives. Many were jealous of Mr Murdoch's purchase of MySpace.com, a social-networking site, because its soaring popularity has pushed News Corporation up among the giants of the internet by page views. Viacom is believed to have wanted to buy the site, but it lost out to News Corporation at the last moment. Now, however, after a furore over men lying about their age on MySpace.com so as to meet under-age girls, competitors are feeling a bit less envious.

Nevertheless, there is no doubt that News Corporation has moved most vigorously among large media firms. Viacom, on the other hand, has missed some opportunities, perhaps partly because it has spent the last year or so concentrating on splitting from its sister company, CBS Corporation. As well as missing MySpace.com, it has still to launch the music download service it has talked of for years (it is planning a music service called URGE with Microsoft for later in 2006) and in the meantime Apple has seized the online music market.

Each of the firms has a different strategy for the internet. Viacom and News Corporation want to build or acquire brand new online businesses as well as to expand their existing brands onto the internet. Disney and Time Warner, on the other hand, are mostly putting their own programming online. Jeff Bewkes, chief operating officer of Time Warner, reckons that one-off download deals such as Disney's and NBC's with Apple's iTunes will prove to be merely a beginning. “These are fine trials and they may turn up something,” he says, “but the evidence says that the real money goes to ad-supported and subscription models.” Vivendi Universal, a French media firm, is being more cautious than the American firms. Its chief executive, Jean-Bernard Levy, says it will exploit the internet to distribute its content, but not as a general-purpose advertising medium. There is still plenty of doubt over whether traditional media companies have the right stuff to prosper on the internet. But now no one can accuse them of not trying. Perhaps the most promising change is that executives at all levels are fully aware that succeeding online means personal reward. As one manager explains: “In 2002 it was career death to be involved with the internet, now it's a career priority.”

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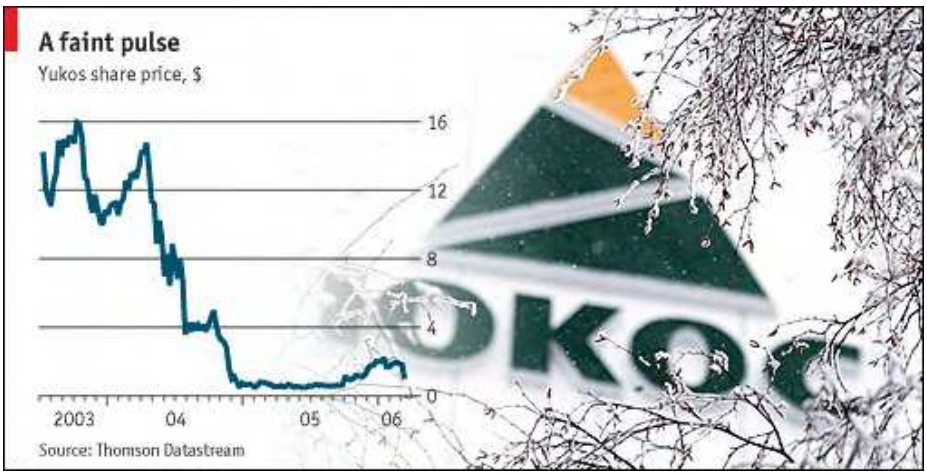
Yukos

The dirty work

Mar 16th 2006 | MOSCOW
From The Economist print edition



Yukos remains a big oil company, but probably not for much longer

ENCOUNTERING one of the many petrol stations that Yukos still runs across Russia is a bit like seeing a ghost: what was once the country's premier oil firm has been crushed by gargantuan tax claims and the imprisonment of Mikhail Khodorkovsky, its boss, now serving an eight-year sentence in a Siberian labour camp for alleged fraud and tax evasion. For many investors, the company died long ago.

In fact, Yukos has continued to operate, eviscerated though it was by the forced and rigged auction of Yuganskneftegaz, its main production arm, in December 2004, and the continued harassment and prosecution of its employees. (One of them, a young lawyer named Svetlana Bakhmina, has been held, untried, since December 2004.) Yukos still has two other smaller but valuable production units. It has a 20% stake in Sibneft, another oil company—most of the rest of which was bought by Gazprom, a state-controlled gas giant, last year—plus an outstanding chunk of Yugansk. Yukos shares actually rallied last year, albeit from a low base (see chart), on hopes that the Kremlin's campaign against it might have abated. It had also been steadily paying down its tax bill.

Then, in December, the firm was whacked with another claim, for around $3.5 billion, bringing the total to $31 billion, of which it says it has paid around $21.6 billion. And this week, the share price plummeted again when it became known that a syndicate of western banks, led by Société Generale, to whom Yukos owes $482m, had filed a request for it to be declared bankrupt with a Moscow court. The court appears amenable.

The dismemberment of Yukos has already created a mêlée of litigation. Rosneft, a state-owned oil company that now owns Yugansk, is suing Yukos over Yugansk's own back-taxes (already paid, says Yukos), and other issues. A group of American minority shareholders are suing Gazprom, Rosneft, their bosses, the Russian government, and assorted ministers. Tom Johnson, the Americans' lawyer, argues that: “Yukos has been nationalised and the owners haven't been paid for it.”

Meanwhile some of Yukos's managers in Moscow have mutinied against the executives who, to avoid Mr Khodorkovsky's fate, have been trying to run the company from abroad. A murky row has broken out between the two camps over the activities of one of the company's trading arms. The exiles wanted to replace its manager, whom they suspect of dodgy dealing; but their preferred candidate was called in for a chat by Moscow prosecutors. The suspicion was that Rosneft and the prosecutors are strong-arming Yukos's Moscow staff, as a prelude to Rosneft's expected take-over of its remaining assets. The feuding managers were supposed to meet this week in Kiev; but the meeting was cancelled because some of those attending were being interrogated.

There is also something distinctly fishy about the bankruptcy request, which, because of the way Russian law ranks creditors, seemed unlikely to yield much for the banks involved. Yukos pointed out that a ruling in the Netherlands last year already gave the syndicate a claim on the cash due from the sale of the company's overseas assets (chief among them being a big stake in a Lithuanian refinery). Then, on March 15th, it emerged that the debt the banks

were seeking to reclaim had in fact been sold, at face value—to none other than Rosneft.

The banks claim the debt sale was finalised only on the 14th. (Yukos disputes this.) Proximity to the bankruptcy filing is just a coincidence, they say. But the case certainly will not harm their relations with the Kremlin, nor with Rosneft, which is planning a huge initial public offering later this year. Rosneft, meanwhile, now has a stronger claim to what is left of Yukos. For his part Vladimir Putin, Russia's president, has said repeatedly that the state has no interest in bankrupting Yukos. When the G8 group of rich nations meets for its summit in St Petersburg in July, Mr Putin may be able to tell his guests that foreign banks helped kill off the company.

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Pharmaceuticals

Unwelcome suitors

Mar 16th 2006 | DARMSTADT AND NEW YORK
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Attempts to form a new drugs giant in Germany

Get article background

NATIONAL industrial champions are all the rage in Europe. So when Merck, a middling German drugs and chemicals manufacturer, announced a €14.6 billion ($17.5 billion) bid to take over Schering, a compatriot of similar size, the company justified its bid with an appeal to national pride: “We do not see any reason why a large international champion should not emerge from Germany, a traditional seat of the pharmaceuticals industry.” Oddly enough, Schering's management does not see things the same way. It immediately rejected the offer as hostile, and vowed to retain the firm's independence.

Both firms share a distant familial tie to big American drug companies with the same names—although war and expropriation severed any formal links long ago. The proposed new drugs firm would be Germany's second-biggest, after Bayer, with sales of some €11 billion a year.

Schering's efforts to fend off its new suitor may prove futile. The world is no longer a friendly place for mid-sized drugs groups. Generic drugs are eating away at margins. And the cost of developing new drugs is rocketing. Schering is admittedly highly profitable: it earned €928m in profit last year on sales of €5.3 billion, thanks to its strong position in the markets for oral contraceptives and multiple sclerosis drugs. But its research arm has recently had a string of failures.

Add in the fact that Schering's shares are not locked up in the hands of a family, and the company looked ripe for takeover. Financial markets pushed its share price up by one-quarter in a single day after hearing of the takeover bid. One reason is that Merck may be forced to increase its offer in the coming weeks. Another, of course, is the chance of a bidding war.

Rumours are swirling that bigger firms, including Switzerland's Novartis and Britain's GlaxoSmithKline, might swoop. Giuseppe Vita, head of Schering's supervisory board, made a mockery of his management's vow to remain independent by declaring that a “white knight” was likely to emerge with a higher offer: “I think they will be knocking on our door soon.”

He may be right about the knocking, but it might not be a kindly knight at the door. In a report released earlier this month, Dresdner Kleinwort Wasserstein, an investment bank, argued that Schering's underperforming research pipeline and poor cost-cutting record, made the company vulnerable to acquisition by a private-equity firm eyeing its rich cash flow. Such a raider could shut down the firm's research arm, sell the devices division and “release a huge amount of value” for shareholders. Merck's attempt to forge a national champion risks ending in the dismemberment of its proposed target.

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Argentina

Where's the beef?

Mar 16th 2006 | BUENOS AIRES
From The Economist print edition

An ill-advised export ban

AP

Passports cancelled

Get article background

SAVOURY beef is often the first thing foreigners associate with Argentina. But fans of an authentic *bife de chorizo* outside the country will not be able to enjoy one anytime soon. In an effort to control a pesky inflation problem—consumer prices rose by 12.3% in 2005—Felisa Miceli, the economy minister, announced an unprecedented measure on March 8th: a near-total ban on beef exports. From now on, steak will be allowed to leave Argentina only under special conditions—for example, if it is part of a small quota of high-quality meat earmarked for Europe. The policy, intended to make beef more affordable to ordinary Argentines by transferring some 600,000 tonnes of it from the export sector to the local market, is scheduled to last for six months. But Ms Miceli says that if prices do not decline sufficiently, she may extend it for a full year.

The decision seemed to achieve its desired short-term effect, as the average price of beef dropped by nearly 15% on Argentina's main meat market on the first day after the ban was announced. But many industry observers think the fall in local prices may quickly evaporate. The high international price of soya beans has already caused many Argentine landowners to convert their cattle pastures into soya fields. The elimination of profitable export markets for beef will only encourage this trend, making local meat shortages even more acute and sending prices up again. Some 10,000 workers employed by beef exporters could lose their jobs. And the ban will cost the government some $165m in taxes. Finally, the decision may raise damaging questions about the reliability of Argentine exports and the security of investments there. In short, says Miguel Braun of CIPPEC, a Buenos Aires think-tank, “no sane economist would say this is a good idea.”

So what was Ms Miceli thinking? George Mandelbaum, who owns 1,000 hectares of agricultural land outside Buenos Aires, argues that the government's short-term need to show the public that it is doing something to lower the cost of beef has trumped any long-run considerations, and that the rural lobby has too little political clout to defend its interests. “Meat is a very important part of the Argentine diet, and [the government] will do anything and everything so that the inflation index doesn't shoot up beyond what they can control,” he says. “They still think that Argentine agriculture is a bunch of oligarchs who get together in a smoky bar and try to screw everyone with high prices.”

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India Post

Rogue mail

Mar 16th 2006 | DELHI
From The Economist print edition

The state hints it wants a postal monopoly; private couriers panic

AFP

Chasing the couriers

THE fabled “Licence Raj”, the suffocating blanket of regulatory controls that India has been steadily dismantling since 1991, had holes in it. In one of them sprouted a flourishing private courier business. Today, more than 1m people are employed in more than 2,500 firms, ranging from big multinationals such as DHL and TNT, to small local-delivery services operating fleets of bicycles. The industry is growing by 20-25% each year. Of around 16 billion items of post in India each year, private firms handle more than 7 billion. But the government, it seems, now wants to grab back a big chunk of that business for its own postal service, India Post. The couriers are up in arms.

At issue is leaked draft legislation, amending the 1898 law that established India Post as a government department. The courier companies understand that it is to be tabled in parliament this session—ie, before May 23rd. The ministry refuses to comment, saying the draft is not finalised. This gives the couriers hope that they are witnessing a trial balloon. They are doing their best to burst it, loudly denouncing what Chris Callen, boss in India of DHL, calls a “disastrous” piece of legislation.

There are three main beefs. First, it would set up a regulator for private couriers, which they say is unnecessary since competition and a plethora of laws keep them in line. Second, it would provide for a levy on the private firms to help finance India Post's “universal service obligation” to deliver mail to every Indian, no matter how remote his homestead. Third, and most controversially, the law would give India Post a monopoly over all letters weighing up to 500 grams (1.1lb).

R.K. Saboo, chairman of the Express Industry Council of India, the couriers' lobby, says that, since some 60% of his members' revenue comes from letters of less than 500 grams, this would put many of them out of business. That would hurt individual consumers and the many businesses in whose supply chains couriers have become essential.

Others, however, have sympathy for India Post's plight. It is the world's biggest postal network, with more than 155,000 branches, 89% of which serve the countryside, and more than 140m postal-savings accounts. Private firms have steadily eaten away at its urban mail business, leaving it with the unprofitable task of delivering post in the final rural mile, down a usually pot-holed road. In a “normal” rural post office, revenues cover 34% of costs; in hilly areas, just 15%. In the 2004 financial year India Post's deficit reached 13.7 billion rupees ($300m). It is, argues Deepak Chopra, of Pitney Bowes, a big postal equipment firm, in a “downward spiral”, and something has to be done. Many places—including America, Australia and the EU—give the post office a monopoly over small letters.

Mr Saboo counters that it is unfair to blame his members alone for India Post's declining business. Like post offices round the world, it is also losing market share to faxes, e-mail and cheaper, more widely available telephony. Forcing private couriers to shut up shop would be “like banning the car industry because it puts horse-drawn carriages out of business”.

The couriers argue that India's rapid economic progress over the past 15 years has been a consequence of its opening up to foreign competition, and its gradual deregulation, so why go backwards? They may well succeed in thwarting the most painful of the planned reforms. But this is the third attempt in modern times to amend the 1898 law. Sooner or later that hole will be mended.

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Platinum

Killing the platinum goose

Mar 16th 2006 | JOHANNESBURG
From The Economist print edition

Zimbabwe's plans send jitters through the mining industry

NOT much has been going right for Zimbabwe. But sitting on the world's second-largest deposits of platinum—at a time when world prices are soaring—would normally be counted a piece of good fortune. Sadly, even this stroke of luck may be about to be ruined by the actions of Zimbabwe's feckless and dictatorial government.

On March 3rd the country's minister of mines announced that 51% of all foreign mining shareholdings would have to be transferred to the government, half of them without compensation. Platinum started being mined in Zimbabwe only in 1994, but the country has already become the world's fourth-largest producer with an estimated 150,000 ounces last year. This is still dwarfed by South Africa, which dominates the global industry with 5.1m ounces of production—more than 75% of the world's total. But Zimbabwe is sitting on substantial platinum resources and big new foreign investments are on the way.

The world's two largest platinum-mining companies, South Africa's Impala Platinum (Implats) and Anglo Platinum, have been eyeing Zimbabwe with interest. Anglo Platinum has been developing a new mine and is expected to start production in 2008. Implats, by far the largest platinum miner in Zimbabwe, has invested more than $250m over the past five years. It is contemplating a $2 billion investment plan for the next 5-15 years, which would more than triple its local production.

The government's ideas could, however, bring these plans to an abrupt halt. The cash-strapped authorities are unlikely to be able to finance their share of the investment which is necessary to boost production, while mining companies cannot afford to shoulder all the costs for 49% of the returns. Operating in Zimbabwe is already difficult enough—with inflation raging above 780%, an unrealistic official exchange rate and crippling shortages of fuel and other basic commodities.

Because agriculture is in meltdown, mining has become a prime source of foreign exchange for Zimbabwe, and the government considers platinum to be vital for the country's economic recovery. It has been courting Chinese investors, but so far this has not translated into anything tangible. Unless it changes course, it now risks killing its last large source of foreign exchange, pushing its economy further into the abyss.

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Pay and private equity

The benefits of privacy

Mar 16th 2006
From The Economist print edition

A battle for managerial talent is under way

"BECOMING the chief executive of a big public company is the pinnacle of a business career." As obvious as that statement might have appeared a few years ago, it would today meet with plenty of disagreement—at least from senior executives. These days they are under constant pressure to "meet the numbers" demanded by Wall Street analysts; ever-more demanding regulators burden them with paperwork; and who wants his pay and perks set out in excruciating detail in the annual report, bringing the almost inevitable accusation of being a fat cat? Faced with all that, no wonder some executives opt for a quieter—and more lucrative—life in the rich pastures of private equity.

The basics of a successful private-equity deal are well established. Borrow a lot of money and buy a public company or a neglected division of a company. Cut costs, increase profits, pay back debt and, after a decent—but not too long—interval, take the company public again, by selling its shares. As easy as it sounds, this takes grit and hard work. Hence, the need to "incentivise" managers by giving them the chance to make a fortune.

A fortune is certainly for the having. Take SunGard Data Systems. In August 2005 the Pennsylvania-based software provider sold itself to a private-equity syndicate for $11.4 billion, and then delisted its shares from the New York Stock Exchange. Its top executives got three windfalls. First was the "accelerated vesting" of share options. Thanks to a change of control, managers could take profits from the premium paid by the buyer straight away rather than going through the agonising wait for options to mature (and enduring the risk that the share price could fall in that time). Second, the managers of the acquired business—largely the same team that was in place before the deal—got new options on 14% of the company's equity, albeit with performance hurdles attached. Finally they were allowed to buy shares in the new company, with a good prospect that they would increase in value, as the newly acquired debt was paid off.

SunGard's chief executive, Cristóbal Conde, did very well. Together with his family he owned shares worth $17m at the takeover price; on top of this, he made paper gains of $58m from existing stock options when the company was bought. He was then given a new option grant for continuing in the job after the buy-out, worth around $44m. The total return of close to $120m amounts to 1% of the firm's value—not unusual for chief executives in deals of such a size.

When a company is resold or floated, there is usually more money to be made. One recent example comes from Britain, where managers' windfalls are usually less lavish than those across the Atlantic. The chairman of QinetiQ, Sir John Chisholm and Graham Love, the chief executive, together own 3.6% of the defence-technology firm. They bought the holding for an estimated £240,000 in 2003 when the Carlyle Group, a large private-equity firm, acquired control. On the company's flotation in February, the two directors made paper gains of £47m ($82m).

Nor are these kinds of gains from private equity confined to the "Anglo-Saxon" economies. On February 21st Legrand, a French maker of electrical equipment that has Kohlberg Kravis Roberts and Wendel Investissement, two private-equity firms, as its biggest shareholders, filed its prospectus ahead of a possible April flotation. Of the €7 billion ($8.4 billion) that the shares are thought to be worth, the company's top 200 managers own around 5%, or €350m ($420m). If precedent is anything to go by, a large part of this wealth will be concentrated in the hands of the 12-strong executive committee.

These handsome returns will buy a few country estates, leaving plenty of change for the odd yacht. According to one recruiter who draws senior managers into private-equity-backed companies, the "basic" expectation is to make a capital gain of around $10m within five years. Barring a sharp change in sentiment in the credit markets that give private-equity investors their buying power—or in the stockmarkets that provide them with an exit—the stakes will be raised in 2006, as will the competition to hire talented managers. With a record €120 billion ($150 billion) in buy-outs in Europe in 2005, competition among private-equity funds for suitable businesses is now more intense than ever. As buyers pay more for them and load more debt on to their acquisitions, so the deals get riskier—and getting the right management team matters more.

That in turn means public companies are having to fight harder—and pay more—to keep their top managers. Marks & Spencer, a big British retailer and a veteran of frenetic corporate activity, rebuffed a takeover bid in 2004,

prompting an overhaul of its management team. The following year, the board put a new pay structure in place. Now, the top five executives stand to get cash and share awards each year of up to two or three times their salaries. For Stuart Rose, the chief executive, this means a possible payout of close to £10m ($17m) over the next five years, as long as profits at least double.

Not all M&S shareholders were happy: 18%, a high proportion by the gentlemanly standards of AGMs, voted against the pay awards. Since the contested pay deal, though, investors have had few grounds for complaint. M&S shares have risen by 68%. Yet Mr Rose is unlikely to make the sort of gain he could in private equity, and he may pay more tax than he would if he had quietly accumulated capital in a private business.

Private equity is not for everyone. Some may find the young (and not so young) thrusters who run funds too demanding to work for, especially if they have not realised big gains after five years. And a paper from the Centre for Management Buy-Out Research at Nottingham University points out an important fact that is often buried in the eye-catching pay data—close to one-third of British private-equity-backed businesses go bust.

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Face value

The cash-register guy

Mar 16th 2006
From The Economist print edition

After his first year, Mark Hurd is putting Hewlett-Packard back on course

Getty Images

ON HIS desk, atop a small pile of papers, sits some shiny brass knuckles of the sort used by street fighters. The gleaming metal weapon seems incongruous in the otherwise bland office of Mark Hurd, Hewlett-Packard's prim-and-proper boss. Is the lethal object intended for inquisitive Wall Street analysts or pernickety journalists? Perhaps it is to remind him of the battles he faces as he tries to turn around a sprawling, $90 billion technology company, following years of lacklustre performance.

One year after he took the job, following the forced departure of the flashy but flawed Carly Fiorina, Mr Hurd has started to revive the fortunes of a legendary Silicon Valley firm. He has slashed costs (and 10% of the workforce), focused the firm's strategy around a few core areas, and separated product divisions. He has hired top managers from outside the famously insular firm. These are the sort of routine aspects of business that rarely generate headlines—and because of that, precisely what HP needs.

The new chief executive is an understated operations geek, the type of manager that excels at HP, the epitome of an engineering-driven company. “Vision without execution is nothing,” he says. “Whenever anyone asks me about vision, I get very nervous. You've got to be able to tie it back to strategy; you've got to tie accountability to things.” Mr Hurd prefers to stand when he talks rather than sit; he wears crisply knotted ties while his managers are allowed open-collared shirts. At 49 years old, his hair is cropped short and every strand is perfectly in place, as one might expect from a man who spent the past 25 years ascending the ranks of a century-old business in Dayton, Ohio called NCR—originally National Cash Register.

When Mr Hurd took charge of HP, it was reeling from the aftershock of a controversial merger in 2002 with Compaq, a struggling computer-maker. The idea had been to attain greater economies of scale in the low-margin PC business, rather than be reliant on the firm's core money-makers: printers and ink cartridges. Ms Fiorina staked her job on the Compaq deal—which was only just approved, by 51% of shareholders, despite the opposition of the Hewlett and Packard families. Yet her penchant for self-promotion estranged her from the company's rank and file—and she failed to get quick results. Wall Street wearied of her. In such a climate, Mr Hurd was called in to set things right.

What he found was a firm spread thin with many units losing money and propped up by the sales of printer-ink cartridges. Its activities spanned both the consumer and business market, selling everything from high-end software to flat-panel television screens. Yet instead of shedding business units, Mr Hurd has decided to (in his words) “double down” on his bets, and simply do more of the same, but better.

Over the past year he has reorganised HP into three main divisions: enterprise computing and services; general tech hardware (such as PCs, handheld devices and the like); and imaging and printing. The company hopes to

capitalise on trends such as computing on the move, and the growing demand for printing, including sophisticated commercial printing.

Some of the reforms are starting to bear fruit. For instance, in 2003 following the Compaq merger, the printing and imaging business alone represented around three-quarters of the company's overall profits; today this has dropped to slightly more than half. Every division now makes money. By making managers and the sales force more accountable and by encouraging cross-selling, the firm has increased the amount of extra products it sells alongside its hardware. Even the commodity business of PC sales is showing signs of life, making margins of around 3%, while printing and services units are forecast to have margins upwards of 15%. People inside and outside HP say Mr Hurd has re-energised the troops.

No surgery needed

How did a “cash-register guy” arriving from the Midwest manage to achieve all this at a Silicon Valley information-technology firm? Mr Hurd learned some valuable lessons at NCR. He made his mark there by scrutinising the firm's operational data the better to understand its performance, and uncover inefficiencies. That is what he has in effect done in his first year at HP. His time at NCR also gave Mr Hurd a crash course in the “do's and don'ts” of handling a merger. In 1991 AT&T purchased NCR (then, the fifth-largest computer-maker) as a way to get into the computing business, but after poor integration, AT&T ended up shedding it in 1996 for $4 billion less than it paid. Asked if there are any parallels to be drawn with HP, Mr Hurd firmly says not. (It is the orthodoxy at HP to speak favourably of Ms Fiorina, just as it is only to chirp the praises of the Compaq merger.)

Mr Hurd has ruled out selling bits of the company for the moment—although many analysts argue that the PC division should be jettisoned—as well as making big acquisitions. Smaller buys are being made, however. In the past 18 months, HP has bought a score of firms to boost its software, services and printing divisions. Ultimately, the strategy must be to carve out a distinct identity for HP—so that the firm is no longer constantly measured against the pole stars of Dell for PCs and IBM for software and services.

Yet if this sounds like a coherent, well-reasoned plan, of course it is not. HP is only in all these businesses by an accident of its evolution, and its focus is opportunistic. HP managers gush about the inherent synergies among the units—such as bundling software on PCs, or selling both servers and the devices that access them. But the rationales sound slightly contrived. Mr Hurd is simply playing the cards he has been dealt. In time, if HP is successful in the areas it is emphasising, the differences among the businesses will only increase. Would proud HP be willing to be broken up? Mr Hurd's brass knuckles may yet come in handy.

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Open-source business

Open, but not as usual

Mar 16th 2006
From The Economist print edition

As “open-source” models move beyond software into other businesses, their limitations are becoming apparent

EVERY time internet users search on Google, shop at Amazon or trade on eBay, they rely on open-source software—products that are often built by volunteers and cost nothing to use. More than two-thirds of websites are hosted using Apache, an open-source product that trounces commercial rivals. Wikipedia, an online encyclopedia with around 2.6m entries in more than 120 languages, gets more visitors each day than the *New York Times*'s site, yet is created entirely by the public. There is even an open-source initiative to develop drugs to treat diseases in poor countries.

The “open-source” process of creating things is quickly becoming a threat—and an opportunity—to businesses of all kinds. Though the term at first described a model of software development (where the underlying programming code is open to inspection, modification and redistribution), the approach has moved far beyond its origins. From legal research to biotechnology, open-business practices have emerged as a mainstream way for collaboration to happen online. New business models are being built around commercialising open-source wares, by bundling them in other products or services. Though these might not contain any software “source code”, the “open-source” label can now apply more broadly to all sorts of endeavour that amalgamate the contributions of private individuals to create something that, in effect, becomes freely available to all.

However, it is unclear how innovative and sustainable open source can ultimately be. The open-source method has vulnerabilities that must be overcome if it is to live up to its promise. For example, it lacks ways of ensuring quality and it is still working out better ways to handle intellectual property.

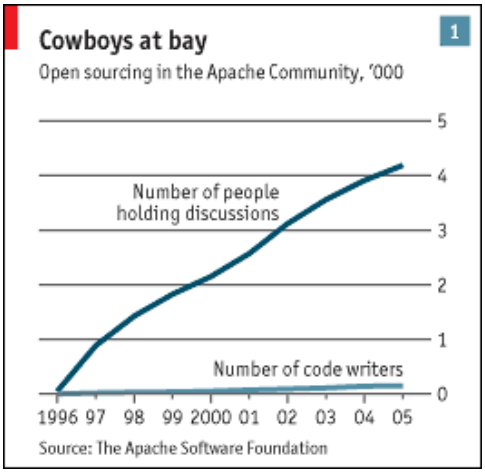
But the biggest worry is that the great benefit of the open-source approach is also its great undoing. Its advantage is that anyone can contribute; the drawback is that sometimes just about anyone does. This leaves projects open to abuse, either by well-meaning dilettantes or intentional disrupters. Constant self-policing is required to ensure its quality.

This lesson was brought home to Wikipedia last December, after a former American newspaper editor lambasted it for an entry about himself that had been written by a prankster. His denunciations spoke for many, who question how something built by the wisdom of crowds can become anything other than mob rule.

The need to formalise open-source practices is at a critical juncture, for reasons far beyond Wikipedia's reputation. Last year a lengthy process began to update the General Public Licence—the legal document which makes available “free software”, such as Linux, an operating system that poses a challenge to Microsoft's dominance. The revision will enable the licence to handle issues such as patents and online services. The drafting process uses the same approach as the software production itself. It relies on an open collaboration that has hundreds of contributors around the world. “What we are actually doing is making a global institution,” says Eben Moglen, a professor at Columbia Law School in New York and the legal architect behind the licence.

One reason why open source is proving so successful is because its processes are not as quirky as they may first seem. In order to succeed, open-source projects have adopted management practices similar to those of the companies they vie to outdo. The contributors are typically motivated less by altruism than by self-interest. And far from being a wide-open community, projects often contain at their heart a small close-knit group.

With software, for instance, the code is written chiefly not by volunteers, but by employees sponsored for their efforts by companies that think they will in some way benefit from the project. Additionally, while the output is free, many companies are finding ways to make tidy sums from it. In other words, open source is starting to look much less like a curiosity of digital culture and more like an enterprise, with its own risks and rewards.



Projects that fail to cope with open source's vulnerabilities usually fall by the wayside. Indeed, almost all of them meet this end. Of the roughly 130,000 open-source projects on SourceForge.net, an online hub for open-source software projects, only a few hundred are active, and fewer still will ever lead to a useful product. The most important thing holding back the open-source model, apparently, is itself.

Just browsing

To get a sense of just how powerful the open-source method can be, consider the Firefox web browser. Over the last three years it has crept up on mighty Microsoft to claim a market share of around 14% in America and 20% in parts of Europe. Firefox is really a phoenix: its code was created from the ashes of Netscape, which was acquired by AOL in 1998 when it was clear that it had lost the “browser war” to Microsoft. Today, the Mozilla Foundation manages the code and employs a dozen full-time developers.

From that core group, the open-source method lets a series of concentric circles form. First, there are around 400 contributors trusted to offer code into the source tree, usually after a two-stage review. Farther out, thousands of people submit software patches to be sized up (a useful way to establish yourself as new programming talent). An even larger ring includes the tens of thousands of people who download the full source code each week to scrutinise bits of it. Finally, more than 500,000 people use test versions of forthcoming releases (one-fifth of them take the time to report problems in bug reports).

Traditional profit-seeking firms cannot usually rely on their customers to play an active role in their product development. In fact, they often strongly resist any such interference. For decades software was “proprietary”, because secret code could not be copied or used without payment. Moreover, the closed approach is seen as a way to prevent exposing possible security flaws. By contrast, open source encourages sharing, and its greater scrutiny may translate into cleaner code. As a cherished open-source adage has it: “Given enough eyeballs, all bugs are shallow.”

The way open-source projects organise themselves is critical to ensuring their quality. Rather than harnessing a magical, bubbling-up of creativity from cyberspace, many open-source projects have established formal, hierarchical governance. “These are not anarchistic things when you look at successful open-source projects—there is real structure, real checks and balances, and real leadership taking place,” explains Josh Lerner, a professor at Harvard Business School.

A good example is MySQL, a type of open-source database software used by companies including Google (to serve up advertisements alongside search results), Yahoo! and Travelocity. The company, founded in 1995, has a hybrid business model. It gives away its software under an open-source licence. At the same time, it sells its software along with maintenance and support contracts. The firm has around 8,000 customers who pay 1-10% of the amount they would spend on proprietary products. Yet for every paying customer, MySQL estimates around 1,000 people use the free version.

“We don't mind,” says Marten Mickos, boss of MySQL since 2001, “they help us with other things.” For example, making the code open encourages a group of users (who may one day become paying customers) to become familiar with it. This creates a talent pool that the firm can draw upon for future employees. Companies developing software products that work with MySQL are potential acquisitions. The community of users freely gives feedback on new features and bugs. It also writes ancillary software and documentation, all of which enhances the value of the core product.

When it comes to the software itself, the company is very much in charge. It rarely accepts code from outside developers (the complexity of database software makes it less amenable to being independently cobbled together). Instead, MySQL employs 60 developers, based in 25 countries, of whom 70% work from home. “We maintain full

governance of the source code. That allows us to go to the commercial users of the product and guarantee the product," explains Mr Mickos. "You could say that this is what they pay for."

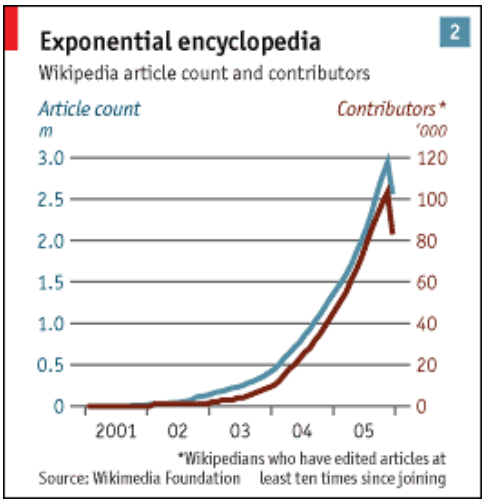
The question of accountability is a vital one, not just for quality but also for intellectual-property concerns. Patents are deadly to open source since they block new techniques from spreading freely. But more troubling is copyright: if the code comes from many authors, who really owns it? This issue took centre stage in 2003, when a company called SCO sued users of Linux, including IBM and DaimlerChrysler, saying that portions of the code infringed its copyrights. The lines of programming code upon which SCO based its claims had changed owners through acquisitions over time; at some point they were added into Linux.

To sceptics, the suit seems designed to thwart the growth of Linux by spreading unease over open source in corporate boardrooms—a perception fuelled by Microsoft's involvement with SCO. The software giant went out of its way to connect SCO with a private-equity fund that helped finance the lawsuits, and it paid the firm many millions to license the code. Fittingly, Microsoft indemnifies its customers against just this sort of intellectual-property suit—something that open-source products are only starting to do.

For the moment, users of Linux say that SCO-like worries have not affected their adoption of open-source software. But they probably would be leery if, over time, the code could not be vouched for. In response, big open-source projects such as Linux, Apache and Mozilla have implemented rigid procedures so that they can attest to the origins of the code. In other words, the openness of open source does not necessarily mean it is anonymous. Strikingly, even more monitoring of operations is required in open source than in other sorts of businesses.

Openness has been both the making of, and a curse to, Wikipedia. In January 2001 Jimmy Wales's plan for an online encyclopedia written entirely by volunteers over the net was foundering. It was called "Nupedia" and contributions were supposed to go through a rigorous editing process by experts. However, after a year only two dozen articles were in. After Mr Wales and the project's co-ordinator, Larry Sanger, heard about so-called "wiki" software—which makes it easy for people jointly to compose and edit web pages—they changed course. Wikipedia was born and opened to anyone. To welcome the masses, the first entry on its "rules to consider" page was "ignore all rules".

People did. Yet two seemingly contradictory things happened: chaos reigned, and an encyclopedia emerged. So-called "edit wars" dominated the online discussions, biases were legitimised as "another point of view" and specialists openly sneered. Many contributors were driven away by the fractious atmosphere (including Mr Sanger, who went on to pen essays predicting Wikipedia's vulnerability to abuse). Still, the power of decentralised collaboration astounded everyone. After 20 days, the site had over 600 articles; six months later, it had 6,000; by year's end, it totalled 20,000 articles in a plethora of languages (see chart 2).



As problems of vandalism, prejudice and inaccuracy ensued, Mr Wales was reluctant to clamp down. In the end, he had to. The site has set down policies to mediate debates; it has banished unco-operative contributors; it locked down entries that were frequently vandalised (such as one on George Bush)—changes come only from contributors who are designated as leaders on the strength of their work. A blunt new policy was promulgated: "Don't be a dick." And after the furore over the biographical entry last year, Wikipedia changed its rules so that only registered users can edit existing entries, and new contributors must wait a few days before they can start new ones.

At the source

Other sectors have also begun to adopt open-source approaches. Richard Jefferson, the director of CAMBIA, an Australian non-profit research organisation, manages an initiative for biotechnology that uses an open-source licence. Researchers may freely use the techniques—such as a way to place genes into plants—on condition that they openly share any improvements they devise. Other projects, such as the Tropical Disease Initiative and the Synaptic Leap, are forming along similar lines. Synaptic Leap points out that because it is not motivated by profit, it has no motive to keep secret any fruits derived from collaboration in research on, for example, malaria.

CAMBIA is spending time and money on establishing an elaborate system whereby contributions can be assessed. It would consider numerous factors, such as the experience of the researcher and the ranking of their work by the community, to identify promising techniques and the best avenues of research. "As it works now, you choose the labs you work with and basically know what you are going to get before you start because you know the people," says Dr Jefferson. "The power of distributed innovation is to be surprised, and hopefully pleasantly surprised."

Rather than a democracy, open source looks like a Darwinian meritocracy. The tools for extremely productive

online collaboration exist. What is still missing are ways to “identify and deploy not just manpower, but expertise,” says Beth Noveck of New York University Law School (who is applying open-source practices to scrutinising software-patent applications, with an eye to invalidating dubious ones). In other words, even though open-source is egalitarian at the contributor level it can nevertheless be elitist when it comes to accepting contributions. In this way, many open-source projects look more hierarchical than the corporate organograms the approach is supposed to have torn up.

Even if the cracks in the management of open source can be plugged by some fairly straightforward organisational controls, might it nevertheless remain only a niche activity—occupying, essentially, the space between a corporation and a commune? There are two doubts about its staying power. The first is how innovative it can remain in the long run. Indeed, open source might already have reached a self-limiting state, says Steven Weber, a political scientist at the University of California at Berkeley, and author of “The Success of Open Source” (Harvard University Press, 2004). “Linux is good at doing what other things already have done, but more cheaply—but can it do anything new? Wikipedia is an assembly of already-known knowledge,” he says.

The second doubt is whether the motivation of contributors can be sustained. Companies are good at getting people to rise at dawn for a day's dreary labour. But the benefit of open-source approaches is that they can tap into a far larger pool of resources essentially at no cost. Once the early successes are established, it is not clear that the projects can maintain their momentum, says Christian Alhert, the director of Openbusiness.cc, which examines the feasibility of applying open-source practices to commercial ventures.

But there are arguments in favour of open source, too. Ronald Coase, a Nobel prize-winning economist, noted that firms will handle internally what it would otherwise cost more to do externally through the market. The open-source approach seems to turn this insight on its head and it does so thanks to the near-zero cost of shipping around data. A world in which communication is costly favours collaborators working alongside each other; in a world in which it is essentially free, they can be in separate organisations in the four corners of the earth.

Perhaps that is why open source is taking up a permanent place as a facet of modern business. As open source begins to look more corporate, corporations themselves are looking to adopt and adapt more open-source practices.

For example, Toyota has organised its teams in ways that stress the same sort of decentralisation, flexibility and autonomy that exist in the Linux community, according to Philip Evans and Bob Wolf of the Boston Consulting Group in an article in the *Harvard Business Review* last July. As such, conventional companies would do well to embrace the work-style, the authors note, such as sharing knowledge widely, establishing reputation systems, and creating a community in which people work for peer recognition as much as remuneration. The lesson is that companies stand to gain by giving up a degree of control over their proprietary knowledge—or rather, some of their proprietary knowledge.

Strikingly, mainstream technology companies—once the most proprietary outfits of them all—have started to cotton on to this. Sun Microsystems is making its software and even chip designs open, in a bid to save the company's business from competition from open-source alternatives. Even Microsoft has increasingly made some products open to outside review, and released certain code, such as for installing software, free of charge under licensing terms whereby it can be used provided enhancements are shared. “We have quite a few programs in Microsoft where we take software and distribute it to the community in an open-source way,” gushes Bill Hilf, director of platform technology strategy at the company. Open source could enjoy no more flattering tribute than that.

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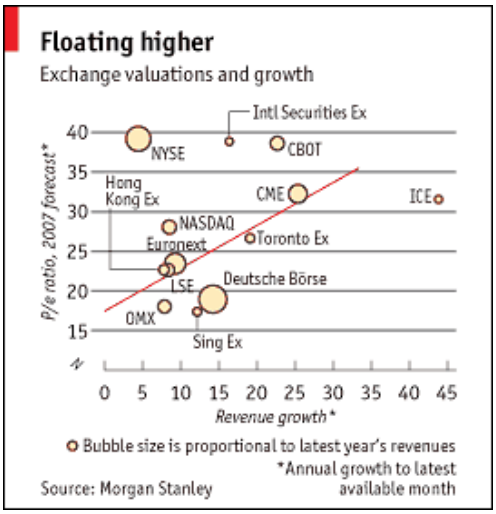
Stock exchanges

Crossing the pond

Mar 16th 2006
From The Economist print edition

NASDAQ's bid for the London Stock Exchange has sparked a flurry of speculation about other tie-ups among exchanges



UNTIL this week, NASDAQ was best known in London as an American stock exchange loaded with technology firms that saw its index soar and then dive with the dotcom boom and bust. Now a revitalised NASDAQ is reaching across the Atlantic to grab a prized jewel in Britain's financial crown, the London Stock Exchange (LSE), which has already seen off several foreign bidders.

Londoners following the LSE bidding saga had become so used to guessing games about continental exchanges, notably the pan-European Euronext and Germany's Deutsche Börse, that the Americans' hostile bid late last week came as something of a surprise. It shouldn't have. NASDAQ tried unsuccessfully to enter Europe once before with a start-up and has in the past held tentative talks with the LSE. Its cash offer of £9.50 ($16.60) a share, which would cost the Americans £2.4 billion, makes the preceding bid—£5.80, from Australia's Macquarie Bank, only three months ago—look downright stingy.

NASDAQ's offer was rejected outright by the LSE's management, but is being considered by big shareholders. If the merger does go ahead, it would be a quantum leap in the consolidation of financial exchanges. It could also raise difficult questions of who should regulate the combined entity, and how. A merged firm would be second only to NYSE Group—as the newly listed New York Stock Exchange styles itself—in market capitalisation.

And even if the merger doesn't happen, the mere possibility illustrates convergent and accelerating trends among the world's exchanges. These include a shift from mutual ownership to listed exchanges, rapid advances in and dissemination of technology, and increasingly sophisticated users who want to trade across borders and asset classes. Meanwhile, exchange shareholders have not been shy to let managers know what deals they should and should not pursue—and that if the bosses do not listen, they risk losing their jobs.

Shareholders in most big financial exchanges are sitting pretty. The share price of the LSE soared by about 30% on March 13th, the first trading day after NASDAQ's bid was revealed, and touched £12 later in the week. This reflected both the offer and the possibility of a bidding war, perhaps with the NYSE. NASDAQ's shares have also risen since the bid, as have the NYSE's, even though markets often take a dim view of acquirers.

The bid, made just days after the NYSE went public, has also focused the minds of exchange executives around the world. NASDAQ's New York rival filed plans on March 14th for a secondary stock offering, the proceeds of which could pay for an acquisition of its own. Its boss, John Thain, has made no secret of his desire to join forces with a European exchange. The NYSE said this week that it must be ready to respond “quickly and decisively” to consolidation. A complicating factor, though, is its continuing integration of Archipelago, an all-electronic exchange, and the roll-out of a “hybrid” trading platform that mixes electronic trading with its traditional open-outcry system.

Two other potential targets for the Americans—Deutsche Börse and Euronext—are back in the spotlight too. For ages the continental pair have been exchanging meaningful glances and having occasional talks. The chances of a tie-up looked a little more serious this week after NASDAQ's bid. Euronext, which this week reported fourth-quarter profits 53% up on the previous year and promised to return €1 billion ($831m) to investors through a special dividend and share buyback, declared that it was eager to bridge its differences with the Germans. “There is a time for talk and a time for action,” said Jean-François Théodore, Euronext's boss, when asked about the talks with Deutsche Börse. A little unhelpfully, the economics minister in the German state of Hesse, which licenses Deutsche Börse to operate the Frankfurt Stock Exchange, implied that the local regulator would insist on Frankfurt retaining the lead role in a merged entity.

The LSE is still believed to be receptive to an offer from Euronext, which beat it in a contest for Liffe, a futures

exchange, several years ago. What the LSE lacks is diversity in asset classes, something it hoped but failed to secure with its pursuit of Liffe—and something that NASDAQ will not bring. Whether Euronext's shareholders want it to face NASDAQ in a bidding war is another question.

While stock exchanges ponder possible partnerships, executives at the world's big futures exchanges have scarcely been idle. The Chicago Mercantile Exchange, for instance, which has a big war chest, has established technology hubs in Europe and Asia, and is eager to expand its influence (see our survey of Chicago). Derivatives exchanges have done particularly well since going public, with soaring volumes and share prices to go with them. Those exchanges, such as the New York Mercantile Exchange, that have not gone electronic look increasingly out of step. Its decision this week to sell a 10% stake to General Atlantic, a big private-equity firm with investments in technology as well, will help push it in the direction of electronic trading.

But who regulates?

With a transatlantic merger looming, exchange users in London voiced concerns this week that they might be subject to American regulators in future. Britain is generally seen by international investors as a more welcoming regulatory environment than the United States, especially since America passed the Sarbanes-Oxley and USA Patriot acts. They worry that London's status as a world financial centre could be dented—although with the FTSE 100 stockmarket index at its highest for almost five years, the British investment climate looks pretty good for the moment.

Nonetheless, in the face of investors' worries about regulation, American and British financial regulators said on March 14th that they would co-operate more and share more information on cross-border financial institutions. NASDAQ issued a statement saying that London operations would continue to be regulated by Britain's Financial Services Authority (FSA), rather than by America's Securities and Exchange Commission (SEC).

But too little is known about NASDAQ's plans to be sure what the regulators' roles would be. According to an SEC official, a joint holding company with separate trading operations in America and Britain would require very little change in the regulatory environment. But regulators on both sides of the Atlantic might have more to say if the exchanges used a common trading platform, which NASDAQ has hinted at, or, going even further, common rules and listing requirements, the official added.

For the moment, the happiest people in the exchanges business might well be shareholders in the LSE. The past year has seen a succession of suitors come and go, and the share price rise and rise. Given the exchange's initial rejection of NASDAQ's offer, there is every chance that someone, maybe NASDAQ itself, will offer even more—though the American exchange's shareholders might have cause to grumble. Although NASDAQ's price-earnings ratio is well above the LSE's and its share price has recently risen, it earned a caution from Standard & Poor's, a rating agency, for pursuing the LSE so soon after paying $934.5m for INET, a trading platform.

Why so many bidders have been drawn to London is a question worth posing. The LSE's management has been competent, but it has also benefited lately from a bull market in shares. More important are the deep pools of liquidity and talent in London, its trading tradition and its ability to span time zones more comfortably than some. “The reason for London's success as a financial centre is not down to who owns the stock exchange,” says Tim Plews, an expert on financial markets at Clifford Chance, a law firm. “We've accepted the idea of foreign ownership. The world won't come to an end.”

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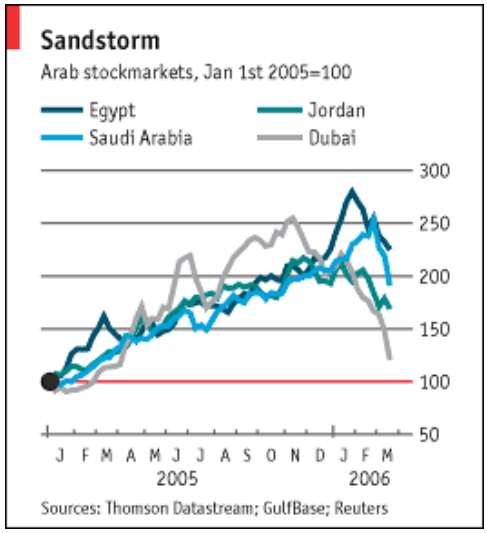
Arab stockmarkets

Down in the dunes

Mar 16th 2006 | CAIRO
From The Economist print edition

Shares take a tumble in the Gulf



NO ONE has jumped out of a window, yet. But that may only be because windows have yet to be installed in the dozens of skyscrapers sprouting in the Arab Gulf, home to 22 of the world's 50 tallest buildings under construction, 16 of those in Dubai alone. Share prices are a less visible—but equally good—index of a regional boom built on high oil prices. In the past five years, they have been heading the same way as the skyscrapers, rising ninefold. But now they are pointing in the opposite direction.

What started last month as a correction of inflated equity prices is looking more and more like an outright crash. Since the start of the year, Gulf stockmarkets have shed one-quarter of their value. The worst hit, the Dubai Financial Market, is down by half from last year's high. And the bearish mood has spilled beyond the Gulf to Egypt, Jordan and Tunisia. Combined losses in Arab equity markets so far amount to some $250 billion, not much less than last year's bumper revenues from oil exports. This week, as markets suffered record daily tumbles, some exchanges briefly halted trading amid panicked calls for government intervention.

The crunch was long predicted. Price-earnings (p/e) ratios zoomed last year to celestial heights on some exchanges. The Saudi Arabian market's p/e ratio, for example, had reached more than triple the emerging-market average of around 13 before the fall began at the end of February. So hot was the market that an estimated 3m people, perhaps half the kingdom's adult citizenry, had leapt in. Their interest was sparked not merely by a liquidity surge generated by windfall oil revenues, but also by liberalising economic policies, strong corporate performances, a gush of public share offerings and a general wariness of investing abroad in what is perceived to be a potentially hostile West.

Some have warned that since small investors are the most likely to be hurt by the crash, Islamic radicals may exploit their anger in order to discredit free-market policies. Others fear that the stock slide could create a general downward economic spiral, especially in countries such as Egypt that are less insulated by oil markets.

Severe though the correction is, for the most part markets have fallen only to where they were at the end of last year. So shares may yet have further to drop—even though the Saudi market rose on March 15th after words of support from Prince al-Waleed bin Talal, a rich investor. But it also means investors who were in for the long haul have still done pretty well.

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Currencies

The yen also rises

Mar 16th 2006
From The Economist print edition

It is time for the yen to climb and the dollar to fall

AMERICA'S profligacy is now taken so much for granted that an enormous increase in its current-account deficit no longer makes front-page news. In the fourth quarter the deficit jumped to a record $225 billion, or 7% of GDP, lifting the deficit for 2005 as a whole to $805 billion. It has become fashionable in America to argue that the deficit does not matter—in particular, that it will not drive the dollar down. But fashions can quickly change.

The deficit is likely to hit an annual rate of $1 trillion before the end of this year. Economists at ABN AMRO believe that on today's trends and at today's exchange rates it could hit 12% of GDP by the end of the decade. The problem is that America's imports exceed its exports by so much that exports need to grow almost twice as fast as imports just to keep the trade deficit in goods constant. But rising import penetration means that a given increase in domestic demand pulls in a lot more imports than it used to. Stephen Roach, of Morgan Stanley, calculates that imports now account for 37% of America's domestic purchases of goods, up from 20% in 1985. So as long as America's economy continues to boom, the trade deficit will widen.

In addition, a deteriorating balance on investment income is also pushing up the current-account deficit. Despite its large net foreign liabilities America has until now earned a surplus on investment income because its foreign assets (largely direct and equity investment) earn a higher return than it pays on its liabilities, such as Treasury securities. But net investment income moved into deficit in the fourth quarter. Higher bond yields and lower foreign equity returns than in 2005 are likely to mean a deficit this year, for the first full year since records began in 1960.

Economic theory says that the current-account deficit can be no help to the dollar; and after rising for most of 2005, the greenback has slipped by around 3% against the yen and the euro since November. Last year the dollar was supported by rising American interest rates, but the European Central Bank and the Bank of Japan (BoJ) have now also both started to tighten policy. The financing of America's deficit last year was also helped by the Homeland Investment Act, which allowed American firms a lower tax rate on profits repatriated from abroad. As profits come home, net foreign direct investment by American firms slumped to $21 billion, from $252 billion in 2004.

The ending of the tax break in December has increased the need for inward investment by foreigners to finance the external deficit. Despite this, politicians seem intent on deterring potential investors. The upsurge in China-bashing risks discouraging the People's Bank of China from buying so many Treasury bonds. Similarly, the recent blocking of the takeover by Dubai's DP World of the running of six American ports could deter other investors. During last week's negotiations over raising the government's debt limit there was even a suicidal proposal to restrict foreign ownership of American Treasury securities. If America restricted such investment, it would have to offer much higher interest rates to attract more private portfolio capital.

Despite its rebound last year, the dollar is still down by 28% against the euro and by 13% against the yen since its peak in 2002. Is the greenback about to resume its decline? Economists at HSBC predict that by the end of this year the dollar will fall to $1.35 (from $1.20 now) against the euro and to ¥108 (from ¥117).

However, in the next couple of years the yen could well strengthen by more against the dollar than the euro does. Of the main currencies, the yen looks by far the cheapest relative to its long-term trend. Its real exchange rate (which takes account of differences in inflation between Japan and its trading partners) fell to a 23-year low last month (see chart). Not only is the yen relatively weak in nominal terms, but falling prices in Japan have made it even more competitive.

The slide in the yen's real exchange rate seems odd, given that Japan boasts the world's largest current-account surplus ($164 billion last year). The explanation lies with Japan's loose monetary policy of recent years, which is

now coming to an end. Last week the BoJ said it was ending its policy of “quantitative easing” (ie, printing tonnes of money). It is expected to start raising rates before the end of the year.

Some economists argue that quantitative easing had little effect, because the policy of injecting lots of liquidity into the financial system did not succeed in its stated goal of persuading banks to lend more. However, an easy monetary policy can also stimulate the economy through the exchange rate. Japan's monetary base (currency in circulation and banks' reserves at the BoJ) has grown twice as fast as America's in the past five years. According to the textbooks, an increase in the supply of yen relative to the supply of dollars should reduce the price of the yen. This is exactly what happened.

If the BoJ withdraws some of that liquidity over the coming year, the yen is likely to climb against both the dollar and the euro. And as long as the economy continues to revive, the Ministry of Finance is unlikely to step in to halt the rise.

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About sponsorship

American banks

Metamorphosis

Mar 16th 2006 | NEW YORK
From The Economist print edition

A credit-card issuer buys—and becomes—a bank

MUCH of nature works in cycles; often business does too. Capital One, the fourth-biggest credit-card issuer in America, began life as part of Virginia's Signet Bank. Spun off in 1994 as a pure card company, it is about to turn into one of America's largest banks. On March 12th Capital One said it was buying North Fork, a New York bank, for $14.6 billion in cash and shares. The deal, if shareholders approve it, will in fact be Capital One's second foray into retail banking—but on a far bigger scale than the first, last year's $5 billion purchase of Hibernia Bank, of Louisiana. Buying North Fork will transform Capital One into one of America's top ten banks by deposits (see chart).

Capital One already has a strong national credit-card brand, backed by clever marketing. It is well known for innovations such as 0% balance transfers (now abandoned) and airline reward points that can be used on any carrier on any day. It wants North Fork for two reasons. First, a shift into banking will reduce its reliance on the slow-growing, competitive business of issuing credit cards. Even before it snapped up Hibernia, Capital One was busy diversifying into car loans, small-business lending and home-equity loans.

To this mix, North Fork adds well-regarded retail-banking and commercial-lending businesses in and around New York City, as well as a national mortgage lender, GreenPoint Mortgage. According to Capital One, the combined company will derive almost half of its profits from businesses other than credit cards.

Second, North Fork gives Capital One a source of cheap, stable funds: it has $37 billion in deposits. Hitherto, Capital One has funded its credit-card loans through securitisation—pooling, packaging and selling batches of credit-card loans to investors. This works well as long as capital markets are liquid, but not when the credit tap is turned off, as happened in 1998 after Russia's sovereign-debt default. The deposits put Capital One on a similar footing to rivals such as MBNA, Providian Financial and Metris Companies, which sold themselves to big banks and thus already enjoy cheap sources of funds.

The hope is that the marriage will generate huge revenue growth. “Individually these companies are somewhat lopsided,” says Michael Poulos, of Mercer Oliver Wyman, a consultancy, pointing to North Fork's excess deposits (ie, liabilities) and Capital One's excess assets (ie, loans). “The combined company will be able to grow faster, and at better margins, than either could have alone.”

Whether the merger's potential is realised depends largely on how neatly the two companies can be stitched together. James Callahan of Morningstar, a research firm, notes that it is too early to reach a verdict on Capital One's integration of Hibernia. The deal closed only in November and the havoc created by last autumn's hurricanes in Hibernia's home patch has not helped. On the plus side, John Kanas, North Fork's chairman and chief executive, brings with him experience of 14 acquisitions over the past two decades.

And the marriage needs to work well enough to justify the price. Capital One is paying 23% more than North Fork's share price on March 10th. That may seem generous, given that lately North Fork, like other regional banks, has been having a harder time of it. The yield curve—the difference between long- and short-term interest rates—has narrowed as the Federal Reserve has raised official short-term rates. As a result, one source of profit, taking short-term deposits and lending the money for longer at higher rates, has dried up. North Fork's profits in the fourth quarter were 5% lower than in the same period of 2004. Its net interest income fell by 7%. Rising interest rates have also meant a slowdown in residential mortgages. North Fork is trying to offset this by putting more weight on commercial mortgages and by reducing its exposure to the residential market.

In all this, North Fork is not alone: regional banks have been more vulnerable than larger banks to the flattening yield curve because they tend to be more reliant on interest income. More regional banks may yet be driven to pair

off. Morningstar's Mr Callahan believes that one cause of Capital One's bid for North Fork may have been the purchase by Sovereign Bancorp, an east-coast bank, of Independence Community Bank, a rival to North Fork in and around New York. Despite their difficulties, regional banks' shares have been gaining in price. Clearly, investors expect further takeover bids.

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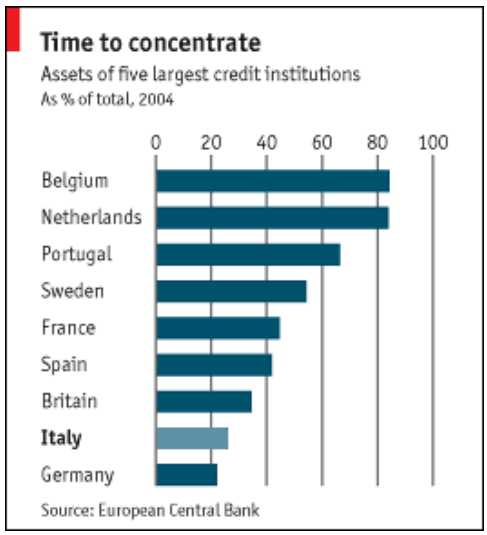
Italian banks

Rumours and denials

Mar 16th 2006 | PARIS
From The Economist print edition

Will Banca Intesa take over Capitalia?



EVER since BNP Paribas, France's second-biggest bank by assets, swooped for Italy's Banca Nazionale del Lavoro at the start of last month, Europe's banking halls have been buzzing with rumours about the next move in the long-awaited consolidation of Italian banking. Most of the gossip has centred on a merger of Banca Intesa, Italy's biggest bank by assets, and Capitalia, ranked fourth. The chatter became especially feverish after a meeting in mid-February between Giovanni Bazoli, chairman of Intesa, and Cesare Geronzi, his counterpart at Capitalia.

Such a merger would have something to be said for it. Even for a large European country, Italy has a fragmented banking market (see chart). There is little geographic overlap between the two banks: Intesa's stamping ground is in the north, Capitalia's in the centre and the south. Analysts estimate that a merger could be worth an extra €1 billion of profit a year. A combined bank would take in 19% of Italian deposits and hand out 18% of its loans.

Capitalia is one of the few banks in Italy that can be taken over. Other listed banks are controlled by strong shareholder pacts, foundations or families. (*Popolari*, or mutual banks, are regarded as almost impossible to buy.) Capitalia's shareholder pact, though, is weak. With a market capitalisation of €18 billion, the bank is no small purchase; but it can be bought.

Why then has Banca Intesa not made a bid, and why do both sides deny that any formal talks have taken place? The answer lies with a powerful French shareholder, politics and managerial egos. Crédit Agricole, a big French bank, owns 18% of Intesa's shares and is the most powerful member of its shareholder pact. Intesa cannot therefore move without its say-so. The French bank may be waiting for the shareholder pact to expire in 2008 to bid for all of Intesa; if so, it will not be keen on a merger that would weaken its hold.

Next, politics, which matters in Italian banking. Capitalia is close to the centre-right; Intesa and Sanpaolo IMI, the third-biggest bank, have friends on the centre-left. Should the centre-left win the general election on April 9th, political blessing for a takeover might follow. Another possible reason for waiting until after the election is that Corrado Passera, Intesa's chief executive, is considered a potential candidate for a cabinet post in a centre-left government.

One problem would be easier to solve were Mr Passera to go into politics. Both he and Matteo Arpe, Capitalia's boss, would like to lead a combined bank. Both can claim success in turning around troubled institutions. In Mr Passera's favour is that he runs the bigger bank; in Mr Arpe's is that Capitalia was in the greater pickle. Furthermore, Mr Geronzi was suspended last month because of his involvement with Parmalat, the dairy company that gave Italy its greatest corporate scandal. Although its chairman's absence weakens Capitalia for now, it also makes Mr Bazoli favourite to be chairman after a merger; and if one top job goes to Intesa, the other may go to Capitalia.

Capitalia's managers also point out some differences of strategy and style. Capitalia has kept its asset-management arm and its non-performing loans while Intesa has sold both (making a good profit on the sale of the dud loans). Capitalia has a federal structure, with three separate banking brands; Intesa is more unified. And there are cross-shareholdings to sort out: Capitalia owns shares in Mediobanca, a Milan investment bank and the biggest shareholder in Generali, an insurer that is in turn Intesa's third-biggest shareholder.

None of this is insurmountable. Even so, Capitalia wants Intesa to say more about its intentions. On March 10th Capitalia said it had bought a 2% stake in Intesa. Under Italian law this caps Intesa's voting rights to 2%, should it build a stake in Capitalia. If the two banks could not agree terms, Intesa could then take control only by bidding cash for at least 60% of Capitalia shares. This it does not want to do—it wants a friendly deal—and could not do without a capital increase, for which it needs the support of Crédit Agricole.

A foreign bid for Capitalia would almost certainly trigger a counter-bid by Intesa or Sanpaolo IMI. Politicians on all sides would back a domestic deal. Economic nationalism is in vogue in Europe, and Italians are protective of their big companies. So proper talks about a marriage of Intesa and Capitalia might start soon. But it will be a rocky engagement.

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About sponsorship

Corporate bonds

Control freaks

Mar 16th 2006
From The Economist print edition

Buy-outs are making bondholders more discriminating. High time

FEW British companies look less vulnerable to takeover than Tesco, a supermarket chain that is no one's idea of a shrinking violet. Yet this week Tesco approached the bond markets with an unusual lure to creditors. Its long-term bonds included a covenant that would protect bondholders' interests in the unlikely event that Tesco is gobbled up.

Bankers say it is not the first time that Tesco's bonds have included such a “change of control” clause. Other big companies, even if they seem just as safe as Tesco, are being pressed by creditors to follow its lead.

There are two reasons why. First is the pace and scale of takeover activity around the world, with bidders employing cheap debt in colossal volumes. Second, creditors that have lent with few strings attached in recent, easy-money years are learning to be a bit more demanding.

Change-of-control protection offers them valuable peace of mind. Whereas shareholders mostly relish the thought that a company they own might be on the receiving end of a bid, bondholders are terrified by it. Usually, it means a load of new debt, relegating their claims and cutting the price of their bonds. The very attributes that attract bondholders to a borrower, such as large, stable cashflow to service debt, are the same that entice a leveraged buy-out (LBO) fund. So without change-of-control safeguards, the danger of being blindsided is growing.

According to Louise Purtle, a strategist at CreditSights, a research boutique, two of the biggest recent deals in America, last year's $11.4 billion LBO of SunGard Data Systems, and Koch Industries' takeover of Georgia-Pacific, both gave bondholders an unwelcome surprise. They had assumed the target companies' size made them impregnable. In Europe KPN, a Dutch telecommunications group, sold bonds last week which included a change-of-control clause—a “*sine qua non*”, says one Latin-speaking banker, because of the risk of a buy-out. And last month BAA, operator of London's biggest airports, faced a possible takeover bid just as it was issuing bonds with no change-of-control clause. An outcry by bondholders forced it to insert protection at the last minute. “BAA opened people's eyes,” says David Brickman, an analyst at Lehman Brothers.

The threat of a takeover should not be bondholders' only worry. Trevor Pritchard, of Standard & Poor's, a rating agency, notes that apart from the new fashion for change-of-control clauses, covenants remain weak. He says that bondholders are not arming themselves against other risks—for example, that borrowers take on more debt or sell assets to return cash to shareholders. Such “shareholder-friendly” tactics are on the rise after years in which companies have favoured bondholders by paying down debt.

Only now are rating agencies alerting bondholders to the dangers of this. This week Fitch, a rival of S&P's, warned that the American food industry's ratings will come into question as it tries to boost shareholder returns at the expense of more debt and attracts interest from private-equity firms.

Such warnings are beginning to be heeded. Analysts talk of a growing “bifurcation” in credit markets, with bondholders avoiding industries, such as food and telecommunications, that look like potential LBO hunting grounds. Instead they are fleeing to safer pastures, such as banks.

What of a more general concern, that the credit cycle is on the turn? With central banks draining liquidity, you might think lenders would be readying themselves for tighter conditions, even though default rates remain low.

So far, there is precious little sign of this. The tide of money flowing into the credit markets as a whole shows no sign of receding. Even carmakers' bonds, long the least popular bit of the market, rallied briefly this week, on the hope that General Motors might be closer to a sale of GMAC, its financing arm.

Partly, the continuing flood is explained by the health of corporate profits in America and Europe: because they are generating more cash, companies can service more debt. Partly, it is explained by the still huge appetite of pension funds and others for higher-yielding assets.

For creditors, the risk of losses has been mitigated by the flourishing market for credit-default swaps, which

provide insurance against default. Some of this insurance will not be worth much if a global credit crunch finally hits. But for many investors, that's still a big if.

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Economics focus

Digging for dirt

Mar 16th 2006
From The Economist print edition

The depths to which economists go to measure corruption

CORRUPTION can be difficult to avoid—the checkpoint policeman reluctant to return your passport; the apparatchik behind the desk who pushes your papers to the bottom of the pile; the customs officer painfully slow to use his rubber stamp—but it is not easy to measure. Vast amounts of money flow through public hands. How much is diverted into private pockets? Kautilya, a statesman and scholar in ancient India, thought it impossible to tell, "just as fish moving under water cannot possibly be found out either as drinking or not drinking water".

This would not satisfy Paul Wolfowitz, the World Bank's president, who is determined to fight corruption in borrowing countries. Fortunately, a growing number of economists, not least at the bank, are turning to the tricky task of quantifying corruption. With some ingenuity, they are striving to measure how much water civil servants are drinking.

Some of the biggest fish were attracted to Iraq's oil-for-food programme, which ran from 1997 to early 2003. Under the scheme's original terms, Iraq sold its oil to whomever it chose, at a price it set (subject to United Nations approval). The proceeds ($64 billion in 2000 dollars) were paid into an escrow account and spent largely on food and medicines, under UN supervision.

American intelligence officials estimate that Iraq received $230m-240m in bribes from those eager to buy its oil. Economic intelligence, as applied by Chang-Tai Hsieh and Enrico Moretti, of the University of California, Berkeley*, suggests that it got far more. As they point out, Iraqi oil, such as Basra Light, is a close substitute for Arabian Light. Before UN sanctions, there was no systematic price difference between the two. But in 1997-98, Basra Light fetched $2 a barrel less; in 2000-01, the gap was more than $5. Bidders would be happy to offer bribes, kickbacks and political favours to secure oil this cheap. Indeed, they could pay up to $5 billion and still break even. How these potential spoils were divided between Iraq and its customers is hard to say, but Messrs Hsieh and Moretti reckon Iraq collected $700m-2 billion.

Although a lot of money, this is a small proportion (1-3%) of Iraq's oil revenues. Petty corruption often cuts more deeply. During Indonesia's rainy season, the dirt tracks that connect Javanese villages to their fields often become impassable. According to one estimate, every dollar spent surfacing these roads—with sand, rock and gravel—brings benefits worth $3.30 over the roads' lifetime. But Indonesia suffers from widespread corruption, collusion and nepotism. Some of the World Bank money allocated to village infrastructure ends up greasing palms not smoothing gravel.

Corruption underfoot

But how much? In a remarkable study† backed by the bank, Ben Olken, of Harvard University, dug deep into the sand and stone to find out. He reports the gap between what a village claims it spent on a road, and what he and his engineers reckon the road really cost. They left little to guesswork. To discover prices and wages, they surveyed quarries, labourers, truckdrivers and suppliers. To get a fix on quantities, they dug holes in the roads, taking a sample of the material that had gone into their construction. And then they built their own "test roads", to find out what it cost to do the job properly.

Mr Olken calculates that on average 28% of reported spending went missing, mostly because roadbuilders skimped on materials. (Not all of the gap can be put down to venality, though: some of the gravel, for example, was probably worn away.) Thanks to his measure of corruption, Mr Olken can weigh up different strategies to fight it.

He reaches an unfashionable conclusion. The bank puts great store by "empowering" the poor to keep their officials honest. In Indonesia, villages must hold public hearings before they get the second and third slices of their money. In a random sample of villages, Mr Olken tried to stir up a bit of Tocquevillean spirit ("Town meetings are to liberty what primary schools are to science...they teach men how to use and how to enjoy it") by sending out hundreds of invitations to villagers to attend the public hearings. His efforts raised attendance, but this had little measurable effect on corruption.

For all its romantic appeal, monitoring by villagers suffers from a free-rider problem. If your neighbour keeps a beady eye on road spending, you can benefit from his vigilance without making an effort yourself. Why, then, should you bother? But by the same logic, why should he?

Mr Olken puts his faith in a less fashionable ally: auditors. A group of villages, chosen at random, were told that they would be audited at the end of the project. This threat reduced missing expenditures by about eight percentage points, to 20% or so. The audits are not cheap, costing the state about $335 apiece, and auditors have been known to lapse into cosy collusion with those they scrutinise. But done properly, Mr Olken says, bean-counting is a promising way to extend the useful life of roads.

A victory for centralised accountancy over local democracy, then? Not quite. Mr Olken shows that corrupt officials care both about their chances of being caught and about the severity of the punishment if they are. The threat of an audit weighed more heavily on village heads who were politically insecure, holding only a narrow majority and facing re-election within two years. Detection cannot be left to the village, but punishment can be. On this point also, Kautilya, writing 2,300 years ago, offers a helpful observation: as punishment for the theft of public property by government servants, he recommended smearing the offenders with cow dung and ashes.

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* “Did Iraq Cheat the United Nations?”. Available at http://www.nber.org/papers/w11202

† “Monitoring Corruption”. Available at www.nber.org/~bolken/corruptionexperiments.pdf

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Radioactive waste disposal

A modern philosopher's stone

Mar 16th 2006
From The Economist print edition

It may be possible to destroy much of the world's long-lived radioactive waste, if a new experiment in Japan proves successful

TRANSMUTATION of the elements was the goal of the medieval alchemists. They dreamed of the riches to be won by the man who could find the philosopher's stone—a substance that, among other wonderful properties, would convert base metals such as lead into gold. Actual transmutation, though, had to await those modern alchemists, the atomic physicists. Nuclear reactors transmute elements routinely. They break uranium atoms, which are heavy, into lighter so-called fission products, such as technetium. This releases energy, along with sub-atomic particles called neutrons. Some of these neutrons go on to hit further uranium nuclei so hard that they, too, shatter and release yet further neutrons. It is this chain reaction that sustains the process. Other neutrons, however, are captured by uranium nuclei. That makes those nuclei heavier still, converting them into neptunium, plutonium, americium and curium.

All these by-products of nuclear fission are radioactive, and many will remain so for thousands—sometimes millions—of years. They are thus difficult to dispose of; the most practical idea being to bury them deep underground in stable rock formations and just wait. On top of that, the plutonium could, in principle, be extracted to make nuclear bombs. But the organisers of the Kumatori Accelerator-driven Reactor Test Facility (KART), at Kyoto University in Japan, which starts up this month, have dusted off an old scheme that might help overcome the problems of nuclear waste. This is to transmute the by-products still further, into something that can be disposed of safely.

KARTs and horsepower

The idea behind the Kumatori project, which is led by Kaichiro Mishima, was originally championed by Carlo Rubbia, who was once head of CERN, a big subatomic-physics laboratory near Geneva. The plan is to build a “sub-critical” nuclear reactor. Such a reactor would not be able to sustain a chain reaction. Instead, the nucleus-transmuting subatomic particles would be supplied from outside, using a particle accelerator.

About 95% of the mass of a piece of used nuclear fuel is unconverted uranium, so the first step is to extract the 5% that is waste. This is done chemically. The radioactive elements to be transmuted are then turned into a target for protons fired out of a particle accelerator. Neutrons cannot be speeded up in an accelerator because they have no electric charge to grab hold of. But the main role of the protons is to knock neutrons free from nuclei in the target.

These neutrons should, if all goes well, be absorbed by the technetium and other fission products, transmuting them into new elements. They will also break up the elements heavier than uranium into products similar to those

from uranium fission. Although, initially, the new elements will be more radioactive than the spent nuclear waste was, that radioactivity will last only a few hundred years. This means that the dumps into which they are put need not be as secure (or as expensive) as those envisaged for long-term waste-storage. And, as a bonus, the whole process should generate more energy than it consumes. Indeed, Dr Rubbia's original name for the device was an energy amplifier.

Researchers in the field hope that results from KART (which should start to appear after September, when the machine becomes fully operational) and a number of other transmutation experiments around the world will contribute to the design of one or more large-scale transmuters. These facilities, which are expected to cost around $1 billion each, are being planned by physicists in Japan and Europe to come on stream some time after 2015—assuming, of course, that those physicists can persuade politicians of the merits of their work.

That is by no means a done deal. Researchers had hoped to start building a more ambitious version of KART in Italy last year. This project, however, was cancelled in 2004, and its demise had more to do with political disagreements than technical shortcomings.

Nor are all scientists fans of transmutation. The Institute for Energy and Environmental Research (IEER), based in Washington, DC, believes that if uranium is separated from spent fuel and then stored as low-level waste, it could pose a greater risk to the public than if it were placed in a repository deep underground. It also points out that some of the long-lived components of spent fuel cannot practicably be transmuted. For example, it would take more than a century to destroy half of the radioactive selenium present in spent fuel, because that element is very inefficient at capturing neutrons. The IEER describes evaluations in favour of transmutation as “seriously deficient” and made “mainly by those who would like to see a continuation of nuclear power”.

At the moment, though, nuclear power's supporters seem to have the upper hand, as many people think it is the only practical way to generate large amounts of electricity without producing climate-changing carbon dioxide. And when nuclear waste remains dangerous for tens of thousands of years, and repositories are estimated to cost tens of billions of dollars, transmutation is worth considering. It may not be lead-into-gold, but it could still be very worthwhile.

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Materials science

Smooth operator

Mar 16th 2006 | BALTIMORE
From The Economist print edition

A material tipped for use in computers reveals some very odd behaviour

DIAMONDS are forever, or so the saying goes. But the most stable form of carbon is actually graphite. Until recently, graphite was regarded as rather a dull substance—fit for making pencil leads and lubricants, certainly, but not the stuff of Nobel prizes. However, a session at the American Physical Society meeting held this week in Baltimore, on a newly discovered form of graphite called graphene, showed how wrong that prejudice was.

Graphene was first made in 2004, by Andre Geim of the University of Manchester, in Britain. The material completes a set. Until 1985, graphite was known only as bulky crystals. Such crystals can extend indefinitely in all three dimensions. In that year, though, buckyballs (or buckminsterfullerenes, to give their proper name) were discovered—and shortly afterwards they were followed by buckytubes. In essence, these forms of carbon are zero- and one-dimensional versions of graphite, since buckyballs are individual molecules composed of exactly 60 carbon atoms that cannot extend themselves in any dimension, and buckytubes are molecular cylinders that can extend only along their lengths. Graphene is the two-dimensional counterpart of these, consisting of carbon sheets just a few atoms deep that can extend along all their edges.

Unlike buckyballs and buckytubes, which engineers spent a long time struggling to commercialise, graphene may head quite rapidly to market. That is because it is an amazingly good conductor of electricity. Electrons travel through it so fast that their behaviour is governed by the theory of relativity rather than classical physics. (Relativity becomes important as an object's speed approaches that of light.) That, combined with graphene's chemical stability (it fails to react with the gases and moisture present in air at room temperature), makes it an attractive material for electronics. If ribbons of graphene could be created on an industrial scale, they would make superb connections inside computer chips. Such chips would be smaller and faster than anything yet seen.

Which is exactly what Walt de Heer of the Georgia Institute of Technology, has in mind. He described to the meeting how his team uses established microelectronic-manufacturing techniques to add graphene interconnections to computer chips. He thinks that large-scale production of graphene wafers will soon be feasible, with an experimental graphene transistor expected within six months.

What really tickled the meeting's fancy, though, was not better chips, but a phenomenon that makes graphene truly unique. For Dr Geim has shown that it demonstrates a characteristic never seen before in any material—and one that challenges the fundamental laws of physics.

In 1879, a physicist called Edwin Hall discovered a phenomenon now known as the Hall effect. If a thin sheet of conductive material carrying an electric current is placed in a magnetic field, the electrons forming the current will be pushed towards one of the faces of the sheet, creating a pool of electrical charge there.

The Hall effect is now the stuff of school physics lessons. But at smaller scales, such as those involving graphene, quantum theory comes into play. Instead of being merely pushed aside, the electrons are forced to move in circular orbits. Those orbits, moreover, are constrained to have particular radiuses, and thus particular energy levels. This leads to the so-called quantum Hall effect.

Even that, however, is familiar ground for undergraduates. What Dr Geim, in collaboration with Philip Kim of Columbia University, in New York, has done, is to show that in graphene the Hall effect is not merely quantum, but relativistic, too.

One consequence is that graphene plays host to all sorts of weird effects that were previously thought to occur only in plasma around neutron stars. Those effects can now be probed in desk-top experiments. Another is that graphene contains things known as quasiparticles, which are beasts that have many of the properties of real subatomic particles (protons, neutrons, electrons and so on), without actually being truly real objects.

Quasiparticles are not, in themselves, novel. But Dr Geim's particular quasiparticles are. They are of a type known as massive chiral fermions.

Chirality refers to “handedness”, in that the left hand is the chiral opposite of the right hand. Unfortunately,

particle physics predicts that any particle that has chirality cannot have mass, so a massive chiral fermion is a contradiction in terms. Which is all rather mysterious. But there is something delightful about the idea of fundamental physics being challenged not by results from a zillion-dollar particle accelerator, but by a couple of blokes with a piece of high-tech pencil lead.

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Drug trials

Tribulation

Mar 16th 2006
From The Economist print edition

Testing drugs is dangerous

BEING a guinea-pig for a drug-safety trial looks like free money. It might involve giving up alcohol, or even coffee, for a few weeks. But other than that, the presumption is that life goes on normally. For six men involved in the trial in London of a new anti-inflammatory drug designed by TeGenero, a German firm, that was, however, a false presumption. All six are in hospital with multiple organ failure, though none, as *The Economist* went to press, had died.

What went wrong is not yet clear. Impurities or incorrect doses are both possibilities. But it is also possible that the trial—a small, preliminary one to discover whether a chemical found not to be toxic in animal experiments was also safe in humans—has got its answer.

What is certain, is that the incident has pointed out that the reason for doing safety trials is that the safety of what is being tried is in doubt—and that nothing in life is really free.

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Thermoelectrics

Every little helps

Mar 16th 2006 | BALTIMORE
From The Economist print edition

Attaching devices to flues and exhaust pipes could harvest waste heat

HERE is a thought: approximately 60% of the energy converted in power generation is wasted. The price of energy is high, both in terms of the actual cost to the consumer and the consequences of the climate change that generating power from fossil fuels causes. If even a small proportion of this wasted heat could be converted to useful power, it would be a good thing.

At this week's meeting of the American Physical Society, in Baltimore, Mercouri Kanatzidis of Michigan State University proposed such a scheme. He advocates attaching thermoelectric devices that convert heat into electricity to chimney stacks and vehicle exhausts, to squeeze more useful energy from power generation.

The technology to do so has existed for years. If one end of an electrical conductor is heated while the other is kept cool, a small voltage is created between the two. Placing two dissimilar metals, or other electrically conductive materials, in contact with each other and then heating them also generates a voltage. Such devices, called thermocouples, are nowadays usually made using semiconductors. They are widely used as thermometers. But if they could be made cheaper, or more efficient, or both, they could also be employed to generate power.

Dr Kanatzidis is developing new thermoelectric materials designed to be capable of converting up to 20% of the heat that would otherwise be wasted into useful electricity. The challenge lies in finding a substance that conducts electricity well and heat badly. These two properties define what physicists call the “figure of merit” of a thermoelectric substance, which describes the power a device made of that substance could generate. Dr Kanatzidis's group aims to make materials with higher figures of merit than those attainable with today's semiconductors.

Since the electrical properties of solids depend on their crystal structures, his group is experimenting with new atomic lattices. In particular, they are working on a group of chemicals called chalcogenides. These are compounds of oxygen, sulphur, selenium and tellurium that are thought to be particularly suitable for thermoelectric applications because their structure allows electric currents to flow while blocking thermal currents. They thus have a high figure of merit. Dr Kanatzidis's group is developing new ways of making these compounds crystallise correctly.

But even existing devices could become economically useful as fuel prices rise, Dr Kanatzidis argues. In America, transport accounts for a quarter of the energy used. Fitting small thermoelectric devices to the exhaust pipes of vehicles could squeeze another 10% from the fuel—a saving that would be especially relevant in hybrid petrol/electric devices where the battery is recharged in part by recycling energy that would otherwise be dissipated by energy-draining activities such as braking. Similarly, attaching thermoelectric devices to the flues of power plants could generate more useful power.

And thermoelectric devices could be used in other areas. They could work alongside solar cells and solar heating systems. They could also be used in geothermal and nuclear power plants. Dr Kanatzidis argues that wherever heat is generated as part of power generation, thermoelectric devices could help extract more useful energy. Waste not, want not.

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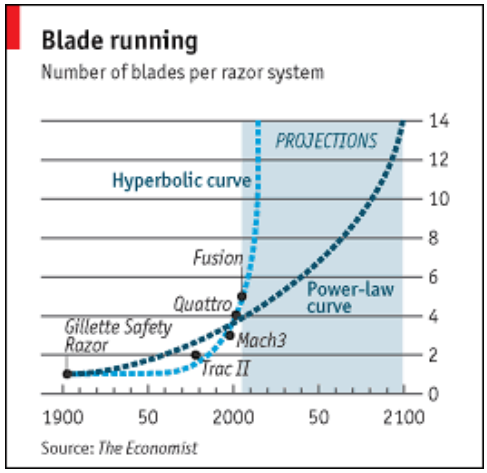
Shaving technology

The cutting edge

Mar 16th 2006
From The Economist print edition

A Moore's law for razor blades?



IT TOOK a leisurely 70 years after King Gillette invented the safety razor for someone to come up with the idea that twin blades might be—or, at least sell—better. Since then, the pace of change has accelerated, as blade after blade has been added to razors in an attempt to tech-up the "shaving experience".

For the most cynical shavers, this evolution is mere marketing. Twin blades seemed plausible. Three were a bit unlikely. Four, ridiculous. And five seems beyond the pale. Few people, though, seem willing to bet that Gillette's five-bladed Fusion is the end of the road for razor-blade escalation. More blades may seem impossible for the moment—though strictly speaking the Fusion has six, because it has a single blade on its flip-side for tricky areas—but anyone of a gambling persuasion might want to examine the relationship between how many blades a razor has, and the date each new design was introduced.

This relationship (see chart) suggests shavers are going to get more blades whether they need them or not. However, just like Moore's law—the observation that computer chips double in power every 18 months or so—it seems that technology as well as marketing determines the rate at which new blades are introduced.

It is simply not possible to add a new blade whenever the marketing department wants one. Every additional blade, explains Michele Szynal, a spokeswoman at Gillette, adds weight and size to a razor. Firms must therefore find ways of making both razor and blades lighter, which means thinner blades, more closely spaced, made of special materials, with new coatings.

So what does the future hold? With only five data-points, it is hard to be sure exactly which mathematical curve is being followed. If it is what is known as a power law, then the 14-bladed razor should arrive in 2100. The spate of recent innovation, however, suggests it may be a hyperbola. In that case, blade hyperdrive will be reached in the next few years and those who choose not to sport beards might be advised to start exercising their shaving arms now.

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About sponsorship

Neoconservatism

Misunderstanding the threat?

Mar 16th 2006
From The Economist print edition

It's Muslim alienation, not WMDs or radical Islam, that's the greater danger, or so argues Francis Fukuyama

America at the Crossroads: Democracy, Power and the Neoconservative Legacy
By Francis Fukuyama

Yale University Press; 226 pages; $25. Published in Britain as "After the Neocons: America at the Crossroads"; Profile Books; £12.99

Buy it at
Amazon.com
Amazon.co.uk

IF THE terrorist atrocities of September 11th 2001 changed the world, the consequent invasion of Iraq by American and British forces, which began on March 19th 2003, will surely mark a change in American thinking about how best to conduct the country's foreign policy. Whatever the eventual outcome in Iraq and the wider Middle East, the three years since the invasion have been a debacle: a tragedy for the tens of thousands of Iraqis killed in the invasion and during the insurgency and near-civil-war that has ensued; a humiliation for those Americans, generally termed neoconservatives, who thought the invading troops would be greeted as liberators and that the Iraqi people would move smilingly and swiftly to democracy.

That, at least, is what Francis Fukuyama argues in his new book. A scholar, now at Johns Hopkins University in Washington, DC, Mr Fukuyama became famous in 1992 for “The End of History and the Last Man”, a book which now leaves him constantly having to point out that he did not argue that after the cold war's end all conflict would cease, but rather that it would lose its ideological character. His fame made him a sought-after adviser and pundit, and drew him close to the neoconservative strand in American thinking.

Epitomised now in most people's minds by Paul Wolfowitz, deputy defence secretary in George Bush's first term, but more accurately by writers such as William Kristol and Robert Kagan, neoconservatives came to believe that American power should be used for moral purposes, that democracy and human rights in other countries were a legitimate foreign-policy concern, but that international law and institutions were generally unable to solve serious security problems. This strand of thinking blended some fairly left-wing elements with a right-wing belief in the use of military power and in America's exceptional legitimacy. In 1998, this made Mr Fukuyama himself an advocate of punitive action against Saddam Hussein.

By 2003, however, he had changed his mind. He opposed the invasion and has since argued publicly with prominent neoconservatives. In “America at the Crossroads” he claims that the invasion contradicted a basic neoconservative principle: that large social-engineering projects (ie, state-building) often lead to unexpected consequences and undermine their own ends. And he believes the case for the invasion was based on a false premise: no, not the idea that Saddam had weapons of mass destruction but rather the notion that the threat from al-Qaeda was linked to Middle East tyranny and WMDs.

The second of those views is more interesting than the first. The idea that it is hard to rebuild state institutions and what is now obscurely known as civil society is both true and unhelpful: unless you conclude from it that America should avoid foreign entanglements altogether, as the neoconservatives emphatically do not, it is of little operational use. In Iraq, the Bush administration clearly underestimated what was required and proved incompetent in implementing even its own limited plans. But that observation could just as well lead you to conclude that it is wrong to attempt such things on the cheap as that it is wrong to do them at all.

Mr Fukuyama's bolder claim is that the attempt in Iraq was unnecessary because it was irrelevant to the actual threat America faced. His argument is that the true threat posed by Islamic militants is not large-scale confrontation rooted in the troubles of the Middle East. It is smaller and more fragmented, and arises from Muslim alienation within European and American societies. In other words, it is a problem of the lack of integration of Muslims within those societies, not something that can be solved by a transformation of Arab or other Muslim countries into democracies. The idea that the ultimate threat thus posed is of nuclear or other WMD terrorism, with weapons supplied perhaps by a hostile Muslim country, was absurdly overblown, he thinks.

Having come to that conclusion, Mr Fukuyama recommends that to deal with the true threat, as well as to clear up the mess caused by the invasion of Iraq, America needs a complete foreign-policy change. His recipe is “realistic Wilsonianism”, by which he means idealism about human rights modelled on that of Woodrow Wilson, combined with more use of multilateral methods and less use of the military.

To play up multilateralism and to play down military power is now more or less what the chastened Bush administration is anyway doing. But is Mr Fukuyama's premise about the true threat correct? It is a view that is easier to take outside government than within it. No one will know whether the threat of nuclear terrorism is overrated until a terrorist has tried it. And the idea that the threat is basically internal, given that the September 11th hijackers studied in Europe, misses the fact that Osama bin Laden and his henchmen are from the Middle East and had their training camps in Sudan and then Afghanistan. Mr Fukuyama's critique of the mistakes that have been made is a powerful one. But could the team in the White House on September 11th have been as sanguine about the threat as he is? Could any successor, whether Democrat or Republican?

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The Russian revolution

Forgotten men

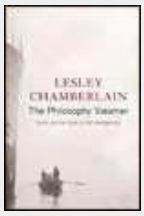
Mar 16th 2006
From The Economist print edition

IN THE autumn of 1922 Lenin deported 70 of the best minds in Russia, pushing them onto two German cruise ships: the *Oberbürgermeister Haken* and the *Preussen*. Altogether 220 intellectuals, together with their families, were thrown out of Russia in preparation for the creation of the Soviet Union at the end of the year. They had committed no crime except to believe that moral and religious reform was more important than social revolution. Many of them had been critical of the social evils of tsarism, and some had been imprisoned while Lenin was still ensconced in Zurich's public library.

The deportees included religious philosophers (Nikolai Berdyaev and Semyon Frank), liberal economists (Boris Brutskus), writers and critics (Mikhail Osorgin and Yuly Aikhenvald), abstract artists, historians, mathematicians and literary journalists. Most were Christian socialists of a peculiarly Russian kind; only a few were counter-revolutionary conservatives.

Lenin personally decided who was to be ejected, and he altered the law to permit foreign exile, a fate the tsars had spared their opponents. The Bolshevik leader's mindset was revealed by the question “What is he?”, thus reducing men to reifications of inimical ideologies. He decreed that deportees who returned to Russia would be shot. In their place the regime entrusted education to “red professors” who were judged reliably conformist.

The Philosophy Steamer: Lenin and the Exile of the Intelligentsia
By Lesley Chamberlain



Atlantic Books; 336 pages; £25

Buy it at Amazon.co.uk

Lesley Chamberlain describes these outrages, and the fates of the deported intellectuals, in a book that is both learned and absorbing. Most of the exiles washed up in Berlin, Paris or Prague, where their relatively lengthy experience of totalitarian dictatorship was valued above that of the White Russians who had emigrated earlier. Even so, many of them slid into penury or alcoholism. One poor fellow compared his life to that of a moth: “First I eat my trousers, then I eat my jacket.” The coming of the second world war hurled their lives into further chaos, as they scrambled to avoid first the Nazis and then the Red Army.

Ms Chamberlain's book is more than an elegy on the theme of exile. She explores the ideas that these Russians brought with them, which challenged not only the aggressive materialism of the Bolsheviks, but also a West that was already too full of superfluous goods in the 1920s. Although the Russians got a warm reception from some Catholic thinkers, such as Gabriel Marcel and Jacques Maritain, their rejection of secular liberalism alienated them from western liberals who could not accept that religious metaphysics were indispensable to true morality.

Many of these Russians are still unknown in the West. But they exerted a slow-burning influence on Joseph Brodsky, Alexander Solzhenitsyn and Andrei Tarkovsky in their Sovietised motherland. Ms Chamberlain has written a fine monument to a generation of thinkers who addressed questions of contemporary relevance and deserve to be better known.

The Philosophy Steamer: Lenin and the Exile of the Intelligentsia.
By Lesley Chamberlain.
Atlantic Books; 336 pages; £25

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About sponsorship

A Welsh memoir

Mud, sweat and tears

Mar 16th 2006
From The Economist print edition

IN HIS preface, Horatio Clare writes, “the children of separated parents are raised on incomplete histories, fragments of a main tale which begins mysteriously and ends in failure.” His poetic, beautifully written memoir pieces together these fragments to tell the story of his unconventional upbringing on a Welsh hill farm and of his parents' doomed marriage.

In the late 1960s, Mr Clare's parents, both journalists in London, buy a run-down, damp farm on the side of a mountain in North Wales, becoming part of a world “where everyone talked to their dogs and their sheep, but not necessarily to their neighbours.” Initially intending to be weekend farmers, soon they are bewitched by the raw beauty of the place and move there permanently.

But this is no pastoral idyll, no live-the-dream fantasy. Farming, they quickly realise, is a bloody, muddy, brutal, sweet-and-sour battle. There is water to be hauled, firewood to be chopped. There is the relentless routine of sheep husbandry —castration, tail docking, fly strike, lambing, death—and the overarching influence of dreadful weather. Mr Clare remembers the beating rain, the winter blizzards and a north wind with “hypothermia and death whistling in its teeth”.

Running for the Hills: A Memoir
By Horatio Clare

John Murray; 278 pages; £14.99. To be published in America by Scribner in August

Buy it at
Amazon.co.uk

Despite its portrayal of hardship, “Running for the Hills” is lifted by its sense of joy and spiritual freedom. The author describes skies full of “wind-flung” birds; newborn spring lambs damply struggling to their feet in a “miraculous, unbelievable ignition of life”; and the sweaty, summer turmoil of shearing, lanolin-spiced fleeces rolling from blades “like a blanket of foam”. The reader basks in intense descriptions of haymaking amid the “hot yawns of full summer”, the smell of freshly baled hay “reeking of clover, old suns and cut grasses, rain and earth and dew”.

Adding poignancy is the sad unfurling of his parents' marriage, which Mr Clare relates with honesty and lack of bitterness. He clear-headedly communicates the tragedy of two people who both passionately want the same thing but who have such contrasting styles of being—his father methodical, logical, realistic; his mother wilful, romantic, fearless—that their dream is destined to fail. His book is a forgiving tribute to parents who paid a price for following their hearts.

Running for the Hills: A Memoir.
By Horatio Clare.
John Murray; 278 pages; £14.99. To be published in America by Scribner in August

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About sponsorship

New movies

Swashbuckling in Orwell-land

Mar 16th 2006
From The Economist print edition

A controversial film that is really a pot-boiler from olden days

Warner Brothers

INTERNET ink is already being spilt over “V for Vendetta”, in which Natalie Portman plays a terrorist. But the only blood spilt in this film, written and produced by Andy and Larry Wachowski, belongs to fascist baddies who have turned England into Orwell-land sometime in the near future.

The mentor who takes Evey (Ms Portman) under his wing is the mysterious V (Hugo Weaving, who played a sneering computer program called “Smith” in the Wachowskis' Matrix trilogy). He is carrying out a vendetta against the new rulers, whose germ-warfare experiments have turned him into a parboiled mutant with the powers of a martial-arts choreographer. His revolutionary activities are spectacular but civilian-friendly: blowing up the Old Bailey (London's central criminal court) and the Houses of Parliament in the middle of the night, while loudspeakers blare the finale of Tchaikovsky's “1812 Overture”.

The story is notable for its sturdy Old Hollywood virtues. The graphic novel on which the film is based (by Alan Moore and David Lloyd) is the nth retelling of “The Count of Monte Cristo”. So it is no surprise that V's favourite way of passing the time in his underground lair is watching the Robert Donat film version of Dumas's matchless tale.

His features hidden behind a mask that turns him into a smiling spectre out of a more swashbuckling era, Mr Weaving is splendid. He spouts Shakespeare, listens to old tunes on a contraband jukebox and plays mind-games with Evey to turn her from a fearful secretary at a television network into the avenging angel with a shaved pate who flips the switch that brings on the revolution.

John Hurt plays the dictator, and Stephen Rea plays an honest cop trying to solve the mystery. The film (directed by James McTeigue, a Wachowski associate) harks back to the 1930s, when Warner Brothers, the studio that made it, was known for this kind of revolutionary pop art. Its tale of doomed love and derring-do may bring a lump to the throat. As for the dystopian fable, only fans of detention centres, torture, unfettered government surveillance, screaming-mad television pundits and laws against alternative lifestyles will find anything here that could possibly offend.

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The container industry

The world in a box

Mar 16th 2006
From The Economist print edition

WHEN the *MSC Pamela* sailed into Felixstowe, Britain's biggest container terminal, on her maiden voyage last year, Hutchison Whampoa, the port's Hong Kong owners, took a deep breath and renewed their efforts to build more deep-water berths. They were looking to the future. At 1,053 feet (321 metres), and able to carry the equivalent of more than 9,000 containers, *Pamela* is the world's largest container ship. But not for long: leviathans with twice that capacity are on their way.

A far greater stir had been caused some 50 years earlier when the *Ideal-X*, an oil tanker left over from the second world war, berthed at Newark, New Jersey. Cranes loaded 58 large metal boxes which, five days later, were unloaded in Houston, Texas, onto lorries which hauled them to their destinations. It was this event, argues Marc Levinson, that marked the birth of the shipping container.

People had been putting freight into various sorts of boxes to reduce handling costs well before Malcom McLean, a trucking magnate, organised the loading of the *Ideal-X*. While the voyage conveniently provides Mr Levinson, who once worked at *The Economist*, with an anniversary around which to write his history of something with “all the romance of a tin can”, he also makes a strong case that it was McLean's thinking that led to modern-day containerisation. It altered the economics of shipping and with that the flow of world trade. Without the container, there would be no globalisation.

The Box: How the Shipping Container Made the World Smaller and the World Economy Bigger
By Marc Levinson

Princeton University Press; 392 pages; $24.95. To be published in Britain by Princeton in April

Buy it at
Amazon.com
Amazon.co.uk

Consider the economics. Loading loose cargo, a back-breaking, laborious business, onto a medium-sized ship cost $5.83 a ton in 1956. McLean calculated that loading the *Ideal-X* cost less than $0.16 a ton. All of a sudden, the cost of shipping products to another destination was no longer prohibitively expensive.

This opened up all sorts of possibilities. Instead of manufacturing goods locally, a company could afford to replace its overcrowded multi-storey factory in Brooklyn with one in Pennsylvania, where taxes, electricity and other costs were lower, and then ship its goods to New York in a container. Later the factory might move to Mexico; it is now probably in China.

The ubiquitous box changed the heart of many of the world's great maritime cities. Mr Levinson details the battle for New York's ports and the longshoremen's struggles to preserve their jobs. The new container terminals in Newark eventually won, leaving older berths and warehouses empty in New York City.

Similar transformations took place in other countries, where unions refused to handle containers, or in ports that could not modernise because they lacked the space to store thousands of containers and handle the fleets of trucks and trains that were needed to move them. The demolition of Rotterdam by German bombers in 1940 gave the Dutch a chance to rebuild the port with containerisation in mind. Similarly, Felixstowe's growth came about with the demise of Liverpool and the collapse of the London docks.

Many were sceptical about the future of containers; some even considered their use a fad. But it was the logistics required by the Vietnam war, during which McLean persuaded the armed forces to use containers, that marked the box's coming of age.

“The Box” is mostly about the formative years of the industry, perhaps providing a little more information than most people actually want. The interminable travails over efforts to set standard container sizes, for instance, are important but mind-numbing. As to the future, the author looks to ships that will approach the “Malacca-Max”, the maximum size of a vessel passing through the Strait of Malacca, the shipping lane between Malaysia and Indonesia. Some container ships are already too big to get through the locks in the Panama Canal. The future giants will be a quarter of a mile long, 190-feet wide with their bottoms 65-feet below the waterline. They will be able to carry enough containers to fill a line of trucks 68 miles long. Hutchison needs to get digging.

The Box: How the Shipping Container Made the World Smaller and the World Economy Bigger. By Marc Levinson.
Princeton University Press; 392 pages; $24.95. To be published in Britain by Princeton in April

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About sponsorship

Samuel Beckett

Try again. Fail again. Fail better

Mar 16th 2006
From The Economist print edition

But watch for the laughter behind the nothingness

"NOTHING is funnier than unhappiness," says Nell, an immobile, daffy dustbin-dweller, in Samuel Beckett's play "Endgame". For Beckett, an Irish playwright born 100 years ago who won the Nobel prize in literature in 1969, adversity and decrepitude were a rich source of humour. The frequently heard charge, that his stuff is morbid and joyless, is altogether wide of the mark.

London and Dublin are celebrating his centenary with festivals that kick off this Sunday. A highlight in both cities will be a revival of the 1984 production, overseen by Beckett himself, of "Waiting for Godot", his best-known work and possibly the most influential play of the 20th century. "Godot" baffled audiences and critics when it was first performed, in French, in Paris in 1953. Though the play had its champions from the start, the verdict of an Irish critic, Vivian Mercier, that "Godot" is a play in which "nothing happens, twice" stuck to its author like a curse.

Nothingness, emptiness, repetition, boredom: for better or for worse, Beckett refined these attributes throughout his career. But the result is far from lugubrious. "Godot" famously adopted the techniques of vaudeville and farce: hat-swapping, pratfalling, Laurel-and-Hardy-like banter, trousers falling down. The play's two protagonists suffer from mildly comical physical ailments: Vladimir has a weak bladder, Estragon aching, smelly feet. The tramps' wordplay and jokes, some good, some deliberately feeble, pepper the text like a musical leitmotif.

Beckett's second play, "Endgame", is much darker, shot through with gallows humour. Hamm is blind and confined to a wheelchair, trundled around by his prickly attendant, Clov. "Can there be misery...loftier than mine?" Hamm yawns at the start. "No doubt. Formerly. But now? (Pause.) My father? (Pause.) My mother? (Pause.) My...dog?"

In his ability to paint images of human collapse, Beckett has no equal. But he was also very Irish. Everything he wrote was rooted in the rhythms and sonority of Irish speech. The clipped, melancholic spareness of the Irish playwright J.M. Synge, author of "The Playboy of the Western World", is detectable in Beckett, as are the windswept landscapes of the paintings of Jack Yeats, brother of the poet W.B.Yeats. The finest Irish novelist of them all, James Joyce, whom Beckett knew in Paris in the 1920s and 1930s, also had great impact on his thinking about the art of writing.

In the mid-1940s, Beckett switched to French, after what he considered his less-than-triumphant forays into fiction with his novels, "Murphy" and "Watt" (the latter was not published until 1953). Both are in fact very funny. Richard Seaver, a translator of Beckett's, recalls reading the manuscript of "Watt" in 1952 with friends, which "took many more hours than it should have...because we kept pausing to wait for the laughter to subside".

The switch to French resulted in "Godot" and "Endgame", and a remarkable but bleak trilogy of novels, "Molloy", "Malone Dies" and "The Unnamable". According to one scholar, French allowed Beckett to explore "ignorance, impotence and indigence", freed from the weight of literary allusions and cleverness which characterised his 1930s English writings.

But Beckett translated nearly all his work from French into English himself (and also from English into French). And once he had translated himself back into his native tongue, his unmistakable voice—lonely, Irish, painfully funny—always broke through.

He was the opposite of a self-promoter: intensely private and fearful of fame, he was more of a self-demoter. In his mid-60s, still in reasonably good shape and now very famous, he called his new dentures "buccal crockery". In a letter to a friend, he described a holiday, meant to be restorative, as "benefit to carcass nil, to put it mildly".

"To put it mildly" is typical Beckett. He was a master of deflation, wielding clichés to withering effect. His *Weltanschauung* was built on doubt. Over and over again Beckett described, with poetic élan, efforts at living and the will to succeed, only for those efforts to be comically doomed and the will defied by an inherently hostile universe. In a prose masterpiece, "Worstward Ho", published in 1983 six years before his death, he wrote, "No matter. Try again. Fail again. Fail better." It could be his motto and, behind it, one can almost hear him laughing.

The “Beckett Centenary Festival” is at the Barbican Centre, London, and the Gate Theatre, Dublin, from March 19th-May 6th

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About sponsorship

Slobodan Milosevic

Mar 16th 2006
From The Economist print edition

Slobodan Milosevic, Serb nationalist, died on March 11th, aged 64

Get article background

Reuters

CHARMING when he wanted to be, clever, in a cunning way, and devoted to his wife: that would be about the sum of any verdict on Slobodan Milosevic were the obituarist to follow the Roman injunction to say nothing but good when speaking of the dead. Mr Milosevic was not uniquely evil but, among the many evil men who contributed to the horror of the wars of the Yugoslav succession, he was pre-eminent. Indeed, more than anyone else, he was responsible for those wars.

They were certainly not inevitable. When European communism collapsed at the end of the 1980s, Yugoslavia was a collection of republics, and provinces within them, occupied by people of different ethnic and religious backgrounds who harboured different grudges and ambitions. From the end of the second world war until 1980, the country had been held together by Josip Broz, known as Tito, a heterodox Communist whose personal magnetism and wartime record of opposition to the Germans gave him the necessary adhesive qualities. An unravelling of some kind after his death was inevitable, but it need not have been bloody.

The Serbs, after all, could have been encouraged to see communism's collapse as opening the way to a bright future. Instead, Mr Milosevic played upon their fears, fostering a sense of victimhood and manipulating events in pursuit of a greater Serbia.

Born in a small Serbian town in 1941 to parents from neighbouring Montenegro, Mr Milosevic seems to have had little love for, or from, his depressive father, a would-be Orthodox priest, who committed suicide in 1962. Twelve years later, his mother, a teacher, also killed herself. It was she who had brought up Slobodan and his brother, having separated from their father when the boys were small.

At school Mr Milosevic fell in love with Mirjana Markovic, known as Mira, whom he married in 1965. It was to be a life-long affair. Mira's family were stout Communists, well connected in the party. Another friend, Ivan Stambolic, encountered at Belgrade University a few years later, was even better connected. The young Milosevic became his protégé—and a party career, with patronage jobs in the state gas company and then banking, opened up.

By the mid-1980s, the traits of the mature Milosevic began to emerge. The chance to cast himself as a champion of a downtrodden people came in April 1987 when Stambolic sent him to reassure the Serb minority in Kosovo, the Serbian province where, amid a mostly Muslim population of ethnic Albanians, stood the Serbs' most holy places. In Kosovo Polje, known as the Field of Blackbirds, where the Serbs had been trounced by the Ottomans in 1389,

Mr Milosevic told the baying multitude, “No one should dare to beat you!”

Then came the treachery—Stambolic, now president of Serbia, was denounced and thrown aside, and later murdered—followed by the remorseless pursuit of Serb nationalism—the autonomy of Kosovo and Vojvodina, another Serbian province, was repealed in 1989. Soon after, on June 28th, the 600th anniversary of the Ottoman victory, came another chance for evoking the myths of Serb victimhood. That too was in Kosovo, but the message was everywhere the same: “Either Serbia will be united or there will be no Serbia!” Other Yugoslavs began to tremble.

Slovenia was the first republic to escape. Having few Serbs, it was allowed to slip away, after a desultory ten-day war. Croatia, though, would not be so lucky when Franjo Tudjman, a nationalist similar in ruthlessness to Mr Milosevic, tried to do the same. With 600,000 Serbs, it presented a perfect battleground for a belligerent champion of the Serb underdog, and of the quest for a greater Serbia. Soon Vukovar was razed and Dubrovnik, the pearl of the Adriatic, bombarded with rockets.

Bosnia came next, and with it the siege of Sarajevo, the slaughter at Srebrenica (of 8,000 or so male Muslims), concentration camps and “ethnic cleansing”, a euphemism for the forced removal of unwanted groups. Three years later the bloodshed resumed in a war pitting the Serbs against the Albanians of Kosovo. It ended only when NATO sent its bombers against Serbia. In due course, Mr Milosevic was defeated in an election and driven from power by massed demonstrators. He died in a prison cell in the midst of a four-year trial in The Hague, charged with war crimes and crimes against humanity.

Martyrs, manipulation and massacres

It is hard to do justice to Mr Milosevic's crimes. He plundered the state coffers. He consorted with kleptocrats and murderers. He was always ready to cast aside friends he no longer needed and, on occasion, to plot with enemies, as he did with Tudjman to carve up Bosnia. Much of the Serb butchery of the 1990s was locally organised, but few doubt that, despite his protestations, Mr Milosevic endorsed it all.

And to what end? His true objective, to remain in power, was achieved at the expense of his enemies and of those he said he championed. Every war he fought left the Serbs worse off—impoverished, shorn of territory, excluded from international society and smouldering among rekindled enmities. Yugoslavia had no right to expect a Nelson Mandela in 1989. But all it needed was a leader with decent instincts and abilities. Instead it got a monster.

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Overview

Mar 16th 2006
From The Economist print edition

America ran a record **current-account deficit** of $805 billion in 2005, up from $668 billion in 2004; as a share of GDP the deficit rose to 6.4% from 5.7%. The quarterly deficit widened to $225 billion—7.0% of GDP—in the last three months of 2005. **Retail sales** fell in February, the first fall in six months. The decline of 1.3%, in value terms, was more than expected, but the rise in January was revised up to 2.9% from 2.3%.

In **Japan,** GDP growth in the fourth quarter was revised down slightly to an annual rate of 5.4%. The economy grew by 2.7% in 2005.

Hopes of a strong upturn in **Germany** later this year may have been exaggerated, according to the ZEW index, which measures financial analysts' business expectations six months ahead. Instead of rising as expected, it fell in March to 63.4 from 69.8 in February. But it remains well above its long-run average since December 1991 of 35.1.

Italy's hard-pressed industrial sector got off to a disappointing start in 2006. Production fell by 0.3% in January compared with December 2005.

The **British** labour market weakened again. Claimant unemployment rose by 14,600 in February—the biggest monthly rise since December 1992. The employment rate among people of working age fell to 74.5% in the three months to January from 74.7% in the previous quarter.

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Output, demand and jobs

Mar 16th 2006
From The Economist print edition

% change on year ago

	GDP latest		GDP qtr*	The Economist poll GDP forecasts 2006	2007	Industrial production latest		Retail sales (volume) latest		Unemployment % rate latest		year ago
Australia	+ 2.7	Q4	+ 1.9	+ 3.1	+ 3.3	+ 1.3	Q3	+ 1.9	Q4	5.2	Feb	5.1
Austria	+ 2.1	Q4	+ 2.8	+ 2.1	+ 1.9	+ 1.5	Dec	+ 3.3	Dec	5.0	Feb	5.1
Belgium	+ 1.5	Q4	+ 2.4	+ 2.1	+ 1.9	+ 2.2	Dec	+ 2.0	Dec	12.4	Feb†	12.7
Britain	+ 1.8	Q4	+ 2.4	+ 2.1	+ 2.5	– 1.3	Jan	+ 2.1	Feb	5.0	Jan††	4.7
Canada	+ 2.9	Q4	+ 2.5	+ 3.1	+ 2.8	+ 2.0	Dec	+ 3.9	Nov	6.4	Feb	7.0
Denmark	+ 3.7	Q4	+ 0.3	+ 2.8	+ 2.3	+ 1.1	Jan	+ 5.0	Jan	5.0	Jan	6.1
France	+ 1.2	Q4	+ 0.9	+ 1.9	+ 2.0	+ 0.1	Jan	– 0.3	Jan	9.6	Jan	10.1
Germany	+ 1.0	Q4	nil	+ 1.8	+ 1.2	+ 3.2	Jan	+ 1.7	Jan	11.3	Feb§	11.9
Italy	+ 0.1	Q3	+ 1.1	+ 1.3	+ 1.2	+ 1.0	Jan	+ 1.3	Dec	7.5	Sep	7.9
Japan	+ 4.0	Q4	+ 5.4	+ 2.9	+ 2.4	+ 2.1	Jan	– 0.7	Jan	4.5	Jan	4.5
Netherlands	+ 1.6	Q4	+ 3.9	+ 2.2	+ 1.9	– 0.9	Jan	+ 2.9	Dec	6.1	Feb**	6.5
Spain	+ 3.5	Q4	+ 3.9	+ 3.1	+ 2.7	+ 5.3	Jan	– 0.9	Jan	8.4	Jan	10.1
Sweden	+ 2.9	Q4	+ 2.6	+ 3.3	+ 2.8	+ 5.9	Jan	+ 7.7	Jan	5.6	Feb†	5.7
Switzerland	+ 2.7	Q4	+ 2.1	+ 2.2	+ 1.7	+ 2.8	Q3	+ 3.1	Dec	3.8	Feb†	4.1
United States	+ 3.2	Q4	+ 1.6	+ 3.3	+ 2.8	+ 3.1	Jan	+ 6.1	Jan	4.8	Feb	5.4
Euro area	+ 1.7	Q4	+ 1.2	+ 2.0	+ 1.8	+ 2.5	Dec	+ 0.9	Jan	8.3	Jan	8.8
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Finland	+ 2.9	Q4	+ 3.7	na	na	+ 1.1	Jan	+ 6.5	Dec	8.2	Jan	8.9
Greece	+ 3.7	Q4	na	na	na	+ 1.5	Jan	+ 2.3	Dec	9.7	Q3	10.1
Iceland	+ 3.6	Q4	na	na	na	na		na		1.6	Jan†	3.0
Ireland	+ 4.8	Q3	+ 1.3	na	na	+ 9.9	Jan	+ 5.0	Dec	4.5	Feb	4.3
Luxembourg	+ 3.1	Q1	na	na	na	+ 8.3	Dec	+ 2.6	Jan	4.8	Jan	4.3
New Zealand	+ 2.0	Q3	+ 0.2	na	na	– 2.7	Q3	+ 3.0	Q4	3.6	Q4	3.6
Norway	+ 3.1	Q3	+ 3.2	na	na	+ 3.8	nil	+ 6.6	Jan	4.2	Jan**	4.5
Portugal	+ 0.7	Q4	+ 0.4	na	na	+ 2.4	Jan	+ 3.7	Jan	8.0	Q4†	7.1

*% change on previous quarter at an annual rate. †Not seasonally adjusted. ††Nov-Jan; claimant count rate 2.9% in Feb. §EU harmonised rate 9.1% in Jan. **Dec-Feb. **Oct-Dec.

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Prices and wages

Mar 16th 2006
From The Economist print edition

% change on year ago

	Consumer prices			The Economist poll consumer prices forecast		Producer prices			Wages/earnings		
	latest		year ago	2006	2007	latest		year ago	latest		year ago
Australia	+ 2.8	Q4	+ 2.6	+ 2.9	+ 2.7	+ 4.8	Q4	+ 8.2	+ 5.3	Q4	+ 2.9
Austria	+ 1.2	Jan	+ 2.9	+ 2.0	+ 1.8	+ 1.8	Feb	+ 4.6	+ 2.7	Jan	+ 2.1
Belgium	+ 2.4	Feb	+ 2.6	+ 2.2	+ 1.9	+ 3.5	Jan	+ 5.1	+ 2.3	Oct	+ 2.4
Britain	+ 1.9	Jan*	+ 1.6	+ 1.9	+ 1.9	+ 2.9	Feb	+ 2.7	+ 3.5	Jan†	+ 4.2
Canada	+ 2.8	Jan	+ 2.0	+ 2.1	+ 2.2	+ 2.2	Jan	+ 3.7	– 0.2	Dec	+ 1.7
Denmark	+ 2.1	Feb	+ 1.3	+ 1.9	+ 1.9	+ 4.3	Feb	+ 3.5	+ 2.9	Q4	+ 2.9
France	+ 1.9	Feb	+ 1.6	+ 1.7	+ 1.6	+ 3.7	Jan	+ 2.9	+ 3.3	Q4	+ 3.0
Germany	+ 2.1	Feb	+ 1.8	+ 1.6	+ 2.3	+ 2.9	Feb	+ 3.8	+ 0.8	Dec	+ 1.4
Italy	+ 2.1	Feb	+ 1.9	+ 2.1	+ 1.9	+ 4.7	Jan	+ 4.5	+ 2.3	Dec	+ 3.3
Japan	+ 0.5	Jan	– 0.1	+ 0.3	+ 0.6	+ 2.9	Feb	+ 1.3	– 0.6	Jan	nil
Netherlands	+ 1.1	Feb	+ 1.6	+ 1.5	+ 1.5	+ 6.3	Jan	+ 4.7	+ 1.6	Feb	+ 0.6
Spain	+ 4.0	Feb	+ 3.3	+ 3.3	+ 2.8	+ 6.3	Jan	+ 4.8	+ 2.5	Q4	+ 2.7
Sweden	+ 0.6	Feb	+ 0.7	+ 1.4	+ 1.9	+ 6.0	Jan	+ 2.5	+ 3.4	Dec	+ 2.0
Switzerland	+ 1.4	Feb	+ 1.4	+ 1.1	+ 1.2	+ 1.7	Jan	+ 1.3	+ 0.9	2004	+ 1.4
United States	+ 4.0	Jan	+ 3.0	+ 2.9	+ 2.3	+ 5.7	Jan	+ 3.9	+ 3.5	Feb	+ 2.6
Euro area	+ 2.3	Feb	+ 2.1	+ 2.1	+ 2.1	+ 5.3	Jan	+ 3.9	+ 2.2	Q3	+ 1.8
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*										
Finland	+ 0.9	Feb	+ 0.2	na	na	+ 5.5	Jan	+ 1.2	+ 3.5	Q4	+ 4.3
Greece	+ 3.2	Feb	+ 3.1	na	na	+ 9.3	Jan	+ 3.3	na		na
Iceland	+ 4.5	Mar	+ 4.7	na	na	+ 3.9	Feb	+ 8.1	+ 8.3	Jan	+ 6.6
Ireland	+ 3.0	Jan	+ 2.3	na	na	+ 2.7	Jan	– 0.4	+ 3.5	Q3	+ 4.7
Luxembourg	+ 3.0	Feb	+ 2.2	na	na	+ 3.5	Dec	+17.0	+ 0.8	Nov	+ 3.9
New Zealand	+ 3.2	Q4	+ 2.7	na	na	+ 6.5	Q4	+ 3.4	+ 3.1	Q4	+ 2.5
Norway	+ 2.6	Feb	+ 1.0	na	na	+21.0	Feb	+14.4	+ 3.1	Q4	+ 3.9
Portugal	+ 2.8	Feb	+ 2.2	na	na	+ 5.3	Jan	+ 4.2	+ 0.2	Jan	– 1.5

*RPI inflation rate 2.4% in Jan. †Nov-Jan.

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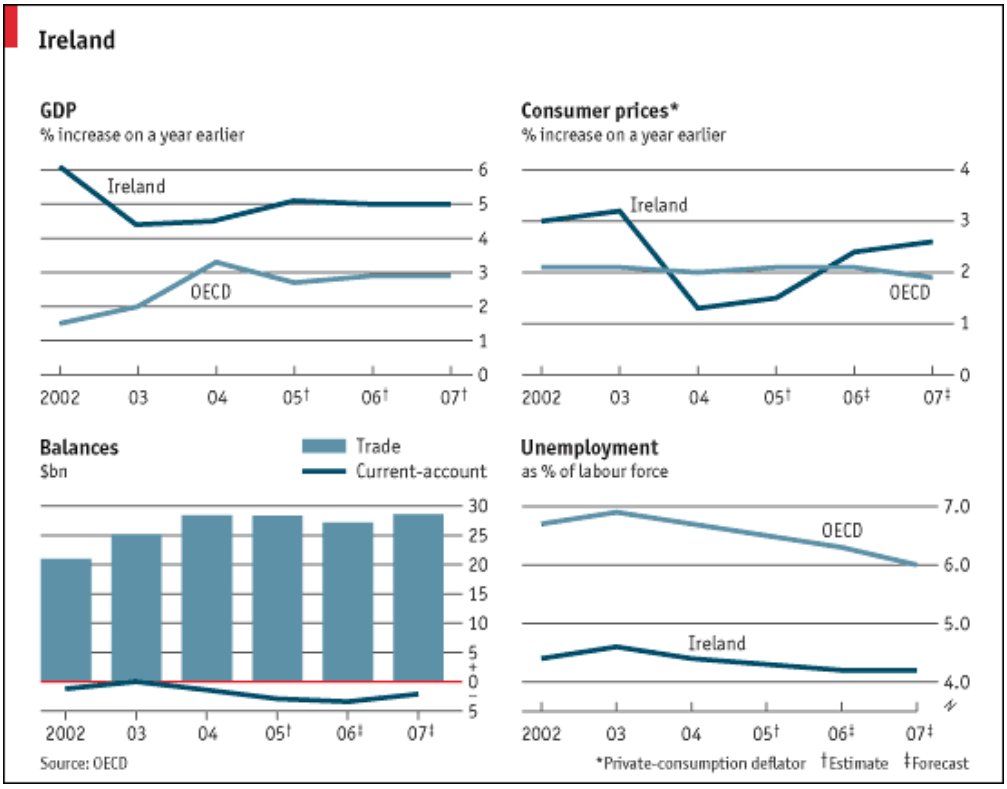
Ireland

Mar 16th 2006
From The Economist print edition



For how much longer can the Emerald Isle gleam? The OECD's latest economic survey of Ireland mixes words of praise and caution. To maintain its enviable growth rate, Ireland will have to find more workers from somewhere: immigrants, older people or women. But its infrastructure must also catch up with the big gains in population it has already enjoyed. The country is highly exposed to world macroeconomic risks, and has a few of its own to ponder. House prices may have overshot, the survey says, and house-building will eventually slow. A prudent government should create fiscal room now to cushion a possible hard landing later. The survey suggests a number of reasons why a relatively high proportion of women remain out of the workforce. Mothers receive child-care benefits even if they do not work, and the tax system is not as kind to second-earners as it could be.

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Money and interest rates

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	Money supply* % change on year ago			Interest rates % a year (Mar 15th 2006)					
				3-mth money market		2-year	10-year gov't bonds		corporate
	narrow	broad		latest	year ago	gov't bonds	latest	year ago	bonds
Australia	+ 6.4	+ 8.1	Jan	5.61	5.83	5.23	5.34	5.68	6.38
Britain	+ 6.6	+11.7	Jan	4.55	4.92	4.39	4.31	4.76	5.13
Canada	+ 9.1	+ 6.9	Jan	3.73	2.47	3.92	4.23	4.47	5.37
Denmark	+29.2	+24.0	Jan	2.80	2.25	3.24	3.69	3.72	5.09
Japan	+ 5.5	+ 1.7	Feb	0.03	0.02	0.54	1.73	1.45	1.75
Sweden	+ 1.7	+10.1	Jan	1.94	1.96	2.78	3.52	3.78	3.44
Switzerland	+ 1.4	+ 3.8	Feb	1.21	0.75	1.72	2.35	2.24	2.43
United States	+ 1.1	+ 8.1	Jan	4.78	2.81	4.67	4.73	4.51	5.61
Euro area†	+10.2	+ 7.6	Jan	2.70	2.14	3.20	3.64	3.62	4.18

*Narrow: M1 except Britain and Sweden M0, broad: M2 or M3 except Britain M4. † Germany for bonds. Benchmarks: US 30-year 4.75%, Japan No. 277 1.72%. Central bank rates: US fed funds 4.50%, ECB refinancing 2.50%, BOJ overnight call 0.001%, BOE repo 4.5%. Sources: Bank of Canada, Commerzbank, Danske Bank, Global Insight, JPMorgan Chase, Stockholmsbörsen, UBS, Westpac, Thomson Datastream. Rates cannot be construed as banks' offers.

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The Economist commodity price index

Mar 16th 2006
From The Economist print edition

2000=100

	Mar 7th	Mar 14th*	% change on one month	% change on one year
Dollar index				
All items	154.8	153.3	– 1.4	+ 8.3
Food	136.6	133.8	– 1.7	– 3.0
Industrials				
All	178.2	178.6	– 1.1	+22.0
Nfa†	149.3	148.9	+ 1.2	+12.1
Metals	194.0	194.9	– 2.1	+26.6
Sterling index				
All items	135.2	133.2	– 2.3	+18.8
Euro index				
All items	120.4	118.0	– 2.6	+19.9
Yen index				
All items	169.1	167.2	– 1.4	+21.9
Gold				
$ per oz	549.45	547.55	+ 0.7	+24.3
West Texas Intermediate				
$ per barrel	61.50	62.88	+ 5.8	+14.4

*Provisional. †Non-food agriculturals.

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Stockmarkets

Mar 16th 2006
From The Economist print edition

Market indices

	Mar 15th	2006 high	2006 low	% change on one week	% change on record high	% change on Dec 30th 2005 in local currency	% change on Dec 30th 2005 in $ terms
Australia (All Ordinaries)	4,907.2	4,910.6	4,708.8	+ 1.5	- 0.1	+ 4.2	+ 4.9
Austria (ATX)	4,031.8	4,158.6	3,682.4	+ 3.2	- 3.0	+ 9.9	+12.2
Belgium (Bel 20)	3,945.4	3,953.6	3,573.9	+ 2.4	- 0.2	+11.2	+13.4
Britain (FTSE 100)	5,965.1	5,965.1	5,618.8	+ 2.6	-13.9	+ 6.2	+ 7.9
Canada (Toronto Composite)	12,055.6	12,080.5	11,272.3	+ 2.7	- 0.2	+ 6.9	+ 8.3
Denmark (OMXCB)	389.2	389.2	362.0	+ 2.5	nil	+ 5.8	+ 7.9
France (SBF 250)	3,612.7	3,612.7	3,327.6	+ 3.3	-17.7	+ 9.4	+11.7
(CAC 40)	5,127.9	5,127.9	4,748.3	+ 3.2	-25.9	+ 8.8	+11.0
Germany (DAX)*	5,898.5	5,915.2	5,334.3	+ 4.0	-26.9	+ 9.1	+11.3
Italy (S&P/MIB)	38,491.0	38,491.0	35,652.0	+ 3.0	-23.2	+ 7.8	+10.0
Japan (Nikkei 225)	16,319.0	16,747.8	15,341.2	+ 4.4	-58.1	+ 1.3	+ 1.7
(Topix)	1,666.8	1,713.5	1,572.1	+ 3.8	-42.2	+ 1.0	+ 1.5
Netherlands (AEX)	464.5	467.5	431.5	+ 2.9	-33.8	+ 6.3	+ 8.5
Spain (Madrid SE)	1,280.3	1,288.0	1,156.8	+ 1.9	- 0.6	+10.7	+13.0
Sweden (Affarsvarlden Gen)	317.1	317.1	287.3	+ 2.4	-20.8	+ 8.1	+10.4
Switzerland (Swiss Market)	8,012.6	8,040.5	7,583.9	+ 2.3	- 4.7	+ 5.7	+ 7.0
United States (DJIA)	11,209.8	11,209.8	10,667.4	+ 1.9	- 4.4	+ 4.6	+ 4.6
(S&P 500)	1,303.0	1,303.0	1,248.3	+ 1.9	-14.7	+ 4.4	+ 4.4
(NASDAQ Comp)	2,311.8	2,331.4	2,205.3	+ 2.0	-54.2	+ 4.8	+ 4.8
Europe (FTSEurofirst 300)†	1,368.4	1,368.4	1,277.1	+ 2.6	-19.7	+ 7.3	+ 9.5
Euro area (FTSE Euro 100)†	1,178.7	1,178.7	1,078.9	+ 3.2	-24.0	+ 8.2	+10.4
World (MSCI)‡	1,330.4	1,330.4	1,259.1	+ 2.7	- 8.2	+ 5.8	+ 5.8
World bond market (Citigroup)††	619.7	638.9	613.5	+ 0.3	- 3.0	- 0.1	- 0.1

*Total return index. †In euro terms. ‡Morgan Stanley Capital International index includes individual markets listed above plus eight others, in $ terms. ††Citigroup World Government Bond Index, total return, in $ terms.

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Trade, exchange rates and budgets

Mar 16th 2006
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	Trade balance*, $bn latest 12 months	Current-account balance $bn latest 12 mths	Current-account balance The Economist poll % of GDP, forecast 2006	Current-account balance The Economist poll % of GDP, forecast 2007	Exchange rate trade-weighted† 2000=100 Mar 15th	Exchange rate trade-weighted† 2000=100 year ago	Currency units per $ Mar 15th	Currency units per $ year ago	Currency units per £	Currency units per euro	Currency units per ¥100	Budget balance % of GDP 2005‡
Australia	− 14.2 Jan	− 42.1 Q4	− 5.4	− 4.0	117.5	116.2	1.35	1.26	2.36	1.63	1.15	+ 1.0
Austria	− 1.9 Dec	+ 0.5 Dec	+ 0.2	+ 0.2	104.9§	105.9	0.83	0.74	1.45	–	0.71	− 2.0
Belgium	+ 12.9 Jan	+ 8.2 Sep	+ 2.2	+ 2.3	106.6§	107.9	0.83	0.74	1.45	–	0.71	nil
Britain	−119.3 Jan	− 40.6 Q3	− 2.3	− 2.3	97.6	100.2	0.57	0.52	–	0.69	0.49	− 3.1
Canada	+ 57.8 Jan	+ 25.2 Q4	+ 2.0	+ 1.4	125.8	118.4	1.15	1.20	2.01	1.39	0.98	+ 1.3
Denmark	+ 9.4 Jan	+ 7.4 Jan	+ 2.9	+ 2.7	106.1	106.9	6.20	5.55	10.8	7.46	5.28	+ 2.8
France	− 29.2 Jan	− 41.6 Dec	− 1.3	− 1.1	107.3§	108.8	0.83	0.74	1.45	–	0.71	− 3.2
Germany	+197.8 Jan	+111.0 Jan	+ 3.9	+ 3.9	108.7§	110.4	0.83	0.74	1.45	–	0.71	− 3.9
Italy	− 13.1 Dec	− 24.6 Dec	− 1.5	− 1.4	106.9§	108.3	0.83	0.74	1.45	–	0.71	− 4.3
Japan	+ 89.0 Jan	+162.7 Jan	+ 3.7	+ 3.5	81.8	88.2	118	104	205	141	–	− 6.5
Netherlands	+ 40.1 Dec	+ 39.8 Q4	+ 5.2	+ 5.1	107.4§	108.7	0.83	0.74	1.45	–	0.71	− 1.6
Spain	− 96.6 Dec	− 85.5 Dec	− 6.9	− 7.0	105.2§	106.1	0.83	0.74	1.45	–	0.71	+ 0.3
Sweden	+ 19.6 Jan	+ 21.8 Q4	+ 6.7	+ 6.3	95.8	100.4	7.79	6.77	13.6	9.38	6.63	+ 1.2
Switzerland	+ 6.6 Jan	+ 49.3 Q3	+13.1	+12.4	105.7	108.2	1.30	1.15	2.27	1.57	1.11	− 1.6
United States	−792.6 Jan	−804.9 Q4	− 6.8	− 6.8	86.7	80.4	–	–	1.74	1.20	0.85	− 3.7
Euro area	+ 29.1 Dec	− 35.4 Dec	− 0.1	nil	116.7	120.1	0.83	0.74	1.45	–	0.71	− 2.9
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Finland	+ 10.4 Jan	+ 5.3 Jan	na	na	108.1§	109.4	0.83	0.74	1.45	–	0.71	+ 2.1
Greece	− 34.2 Dec	− 17.5 Dec	na	na	103.6§	105.1	0.83	0.74	1.45	–	0.71	− 4.5
Iceland	− 1.6 Jan	− 2.6 Q4	na	na	106.8**	95.0	70.0	58.6	122	84.2	59.6	+ 2.0
Ireland	+ 40.1 Dec	− 3.7 Q3	na	na	112.1§	114.7	0.83	0.74	1.45	–	0.71	− 0.9
Luxembourg	− 4.8 Dec	+ 3.5 Q3	na	na	106.6§	107.9	0.83	0.74	1.45	–	0.71	− 2.3
New Zealand	− 4.9 Jan	− 9.1 Q3	na	na	129.7	138.4	1.55	1.34	2.71	1.87	1.32	+ 5.3
Norway	+ 50.6 Feb	+ 43.7 Q3	na	na	109.9	107.9	6.62	6.09	11.6	7.97	5.64	+ 15.3
Portugal	− 23.0 Dec	− 16.7 Nov	na	na	104.6**	104.3	0.83	0.74	1.45	–	0.71	− 6.0

*Merchandise. Australia, Britain, France, Canada, Japan and United States imports fob, exports fob. All others cif/fob. †Bank of England except §IMF, January average. ‡OECD estimate.
**IMF, November average.

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About sponsorship

The world's richest people

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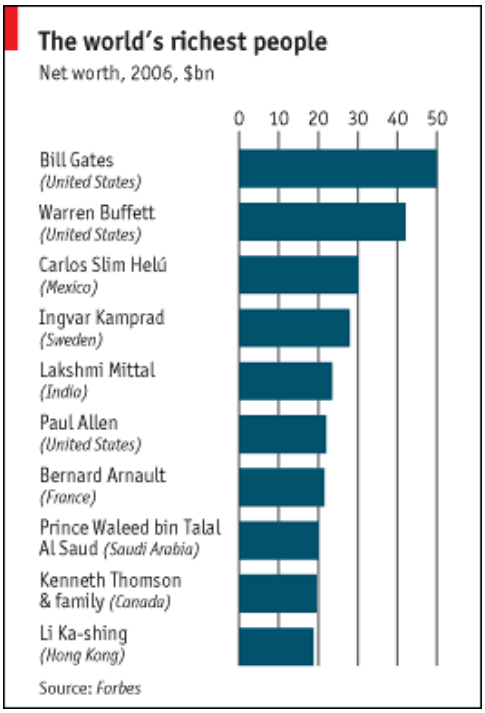

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Overview

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China's industrial production in January and February was 16.2% higher than a year ago. Its inflation rate fell to 0.9% in February. In the same month China's trade surplus narrowed sharply to $2.5 billion; its 12-month surplus fell to $102.6 billion.

Russia's trade surplus is even bigger: it rose to $124.3 billion in the year to January. **Brazil's** inflation rate fell to 5.5% in February, its lowest for almost two years.

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Current-account balances

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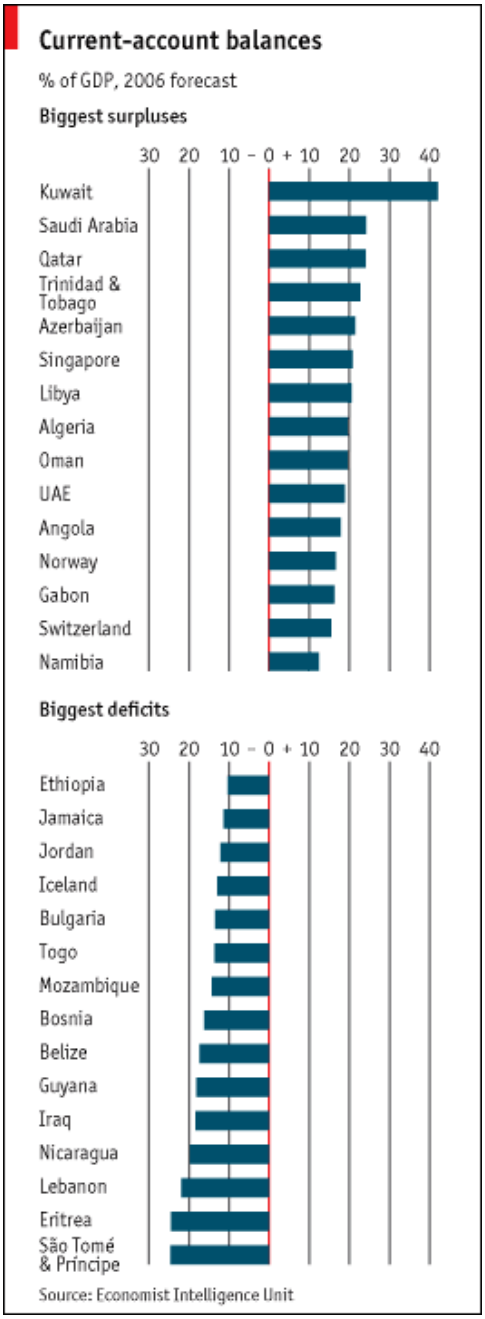
America's $805 billion current-account deficit last year was the world's biggest in absolute terms, but as a percentage of GDP it pales in comparison with the 24.5% deficit forecast this year for Eritrea or the 24.6% forecast for São Tomé e Príncipe. The biggest surpluses belong to countries such as Trinidad and Tobago, with large energy exports.



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Economy

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	% change on year ago						Latest 12 months, $bn				Foreign reserves* $bn, latest	
	GDP		Industrial production		Consumer prices		Trade balance		Current account			
China	+ 9.9	Q4	+16.2	Feb	+ 0.9	Feb	+102.6	Feb	+128.5	H1	818.9	Dec
Hong Kong	+ 7.6	Q4	+ 4.1	Q3	+ 2.6	Jan	– 9.7	Jan	+21.0	Q3	125.7	Feb
India	+ 7.6	Q4	+ 8.3	Jan	+ 4.4	Jan	–38.0	Feb	–18.3	Q3	136.6	Feb
Indonesia	+ 4.9	Q4	+ 2.1	Dec	+17.9	Feb	+29.1	Jan	+ 0.7	Q3	33.3	Jan
Malaysia	+ 5.2	Q4	+ 2.6	Jan	+ 3.2	Jan	+26.8	Jan	+18.7	Q3	70.7	Jan
Pakistan	+ 8.4	2005†	+19.3	Sep	+ 8.0	Feb	– 9.4	Jan	– 3.7	Q4	9.8	Jan
Philippines	+ 6.1	Q4	+ 0.1	Dec	+ 7.6	Feb	– 3.7	Dec	+ 2.9	Sep	18.0	Feb
Singapore	+ 8.7	Q4	+ 1.3	Jan	+ 1.8	Jan	+31.1	Jan	+33.2	Q4	120.2	Feb
South Korea	+ 5.2	Q4	+ 6.4	Jan	+ 2.3	Feb	+19.3	Feb	+15.7	Jan	215.9	Feb
Taiwan	+ 6.4	Q4	+ 4.4	Jan	+ 1.0	Feb	+ 7.6	Feb	+16.4	Q4	257.0	Feb
Thailand	+ 4.7	Q4	+ 5.8	Jan	+ 5.6	Feb	– 7.5	Jan	– 2.3	Jan	51.7	Jan
Argentina	+ 9.2	Q3	+ 3.3	Jan	+11.5	Feb	+11.3	Jan	+ 4.4	Q3	18.7	Jan
Brazil	+ 1.4	Q4	+ 3.2	Jan	+ 5.5	Feb	+45.5	Feb	+13.0	Jan	56.3	Jan
Chile	+ 5.2	Q3	+ 7.7	Jan	+ 4.1	Feb	+ 9.7	Feb	– 0.2	Q3	16.1	Feb
Colombia	+ 5.8	Q3	+ 0.9	Dec	+ 4.2	Feb	+ 1.4	Dec	– 1.7	Q3	14.9	Feb
Mexico	+ 2.7	Q4	+ 2.7	Dec	+ 3.7	Feb	– 6.0	Jan	– 5.7	Q4	76.7	Jan
Peru	+ 4.4	Jan	+ 2.7	Dec	+ 2.7	Feb	+ 5.2	Jan	+ 1.0	Q4	13.1	Jan
Venezuela	+10.2	Q4	+13.5	Dec	+12.5	Feb	+31.5	Q4	+25.4	Q4	23.9	Dec
Egypt	+ 5.2	Q1	+ 4.0	2005†	+ 3.4	Jan	–11.3	Q3	+ 1.8	Q3	21.3	Feb
Israel	+ 4.8	Q4	+ 7.0	Dec	+ 3.1	Feb	– 8.7	Feb	+ 2.4	Q3	28.0	Feb
Saudi Arabia	+ 6.5	2005‡	na		+ 1.2	Dec	+84.6	2004	+51.9	2004	26.0	Jan
South Africa	+ 4.5	Q4	+ 5.6	Jan	+ 4.0	Jan	– 4.1	Jan	–10.3	Q3	20.2	Feb
Czech Republic	+ 6.9	Q4	+15.1	Jan	+ 2.8	Feb	+ 1.7	Jan	– 2.6	Q4	29.4	Feb
Hungary	+ 4.3	Q4	+11.0	Jan	+ 2.5	Feb	– 3.4	Jan	– 8.7	Q3	19.8	Feb
Poland	+ 4.2	Q4	+ 9.5	Jan	+ 0.7	Feb	– 2.9	Jan	– 4.5	Jan	41.3	Jan
Russia	+ 7.0	Q4	+ 4.4	Jan	+11.1	Feb	+124.3	Jan	+86.6	Q4	197.9	Feb
Turkey	+ 7.0	Q3	– 4.5	Jan	+ 8.2	Feb	–43.9	Jan	–23.4	Jan	52.9	Jan
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Estonia	+10.5	Q4	+12.1	Jan	+ 4.6	Feb	– 2.4	Dec	– 1.3	Jan	1.9	Jan
Latvia	+10.5	Q4	+11.2	Jan	+ 6.1	Feb	– 3.0	Dec	– 2.0	Dec	2.3	Jan
Lithuania	+ 8.2	Q4	na		+ 3.5	Jan	– 3.8	Jan	– 1.9	Jan	4.0	Jan
Slovakia	+ 7.5	Q4	+ 7.7	Jan	+ 4.4	Feb	– 2.7	Jan	– 3.0	Nov	15.1	Jan
Slovenia	+ 5.1	Q4	+ 5.5	Dec	+ 2.2	Feb	– 1.7	Jan	– 0.3	Dec	8.1	Dec

*Excluding gold, except Singapore; IMF definition. †Year ending June. ‡Economist Intelligence Unit estimate.

Sources: National statistics offices, central banks and stock exchanges; Thomson Datastream; Reuters; WM/Reuters; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; Bank Leumi le-Israel; Standard Bank Group

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Financial markets

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From The Economist print edition

	Currency units			Interest rates	Stockmarkets	% change on		
	per $		per £	short-term	Mar 15th		Dec 30th 2005	
	Mar 15th	year ago	Mar 15th	% a year		one week	in local currency	in $ terms
China	8.04	8.28	14.0	2.05	1,337.2	+1.9	+ 9.5	+ 10.0
Hong Kong	7.76	7.80	13.5	4.44	15,720.4	+1.5	+ 5.7	+ 5.6
India	44.4	43.6	77.5	6.63	10,801.7	+2.8	+ 14.9	+ 16.5
Indonesia	9,125	9,338	15,922	13.70	1,244.4	+0.9	+ 7.0	+ 15.4
Malaysia	3.71	3.80	6.46	3.47	924.2	+1.2	+ 2.7	+ 4.8
Pakistan	60.2	59.4	105	8.95	10,393.9	-1.9	+ 8.8	+ 8.1
Philippines	51.0	54.0	89.1	6.94	2,127.9	+1.4	+ 1.5	+ 5.5
Singapore	1.62	1.62	2.83	3.44	2,498.0	-0.2	+ 6.4	+ 9.3
South Korea	975	1,004	1,701	4.26	1,334.0	+1.5	- 3.3	+ 0.3
Taiwan	32.4	31.0	56.5	1.65	6,518.7	+0.9	- 0.5	+ 0.9
Thailand	39.2	38.4	68.3	4.95	741.2	+2.4	+ 3.9	+ 8.7
Argentina	3.07	2.92	5.36	9.88	1,778.3	+0.1	+ 15.2	+ 13.5
Brazil	2.12	2.75	3.71	16.54	37,541.0	+0.7	+ 12.2	+ 23.3
Chile	528	589	921	4.68	9,831.9	+1.4	+ 6.8	+ 3.6
Colombia	2,260	2,374	3,943	5.98	10,645.5	+0.8	+ 11.9	+ 13.2
Mexico	10.7	11.2	18.6	7.37	18,941.0	+2.9	+ 6.4	+ 6.1
Peru	3.33	3.26	5.82	4.06	5,734.1	nil	+ 19.4	+ 22.9
Venezuela	2,499§	2,834§	4,360	10.22	29,585.1	+0.5	+ 45.1	+ 50.1
Egypt	5.74	5.80	10.01	8.07	55,321.1	-4.0	- 0.1	- 0.1
Israel	4.71	4.31	8.21	5.14	848.3	+2.0	+ 2.5	+ 0.2
Saudi Arabia	3.75	3.75	6.54	5.27	15,606.4	-9.7	- 6.6	- 6.6
South Africa	6.19	6.05	10.8	7.20	19,692.8	+6.2	+ 8.8	+ 11.4
Czech Republic	23.9	22.3	41.7	2.09	1,522.3	+1.0	+ 3.3	+ 6.4
Hungary	218	184	380	6.63	21,716.3	-1.9	+ 4.5	+ 2.8
Poland	3.22	3.03	5.62	4.11	38,218.9	+0.5	+ 7.4	+ 8.6
Russia	27.8	27.5	48.6	12.00	1,377.3‡	-1.4	+ 18.5	+ 22.4
Turkey	1.33	1.32	2.33	14.51	43,236.7	+2.1	+ 8.7	+ 10.2
EM (MSCI)*	1.00	1.00	1.74	na	763.6	+1.9	+ 8.1	+ 8.1
EMBI+†	1.00	1.00	1.74	na	377.0	+0.7	+ 2.3	+ 2.3

*Emerging Mkts. †JPMorgan Chase's Emerging Mkts Bond Index Plus. ‡In $ terms. §Floating exchange rate.

Sources: National statistics offices, central banks and stock exchanges; Thomson Datastream; Reuters; WM/Reuters; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; Bank Leumi le-Israel; Standard Bank Group

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